Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-9 2012

Poslovni sistem Mercator, d.d.
Management Board

November 2012

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SUMMARY

Mercator Group revenue in the first three quarters of 2012 remains approximately the same as in the corresponding period last year. Revenue growth in international operations is still relatively high at 4.4%.

Mercator Group generated EUR 2.1 billion of revenue in the period 1-9, 2012, which is 0.7 percent more than in the equivalent period of the year before. Revenue in Slovenia dropped by 2% while in international markets, it rose by 4.4%. Economic slowdown in the region, persisting debt crisis, drop in Slovenian import and export, and negative changes in exchange rates in Serbia had a strong negative impact on Mercator Group performance. As a result, Mercator Group saw a loss of EUR 22 million in the period 1-9, 2012.

Cost-cutting measures
The Management Board performs an extensive rationalization of all types of costs, the first effect of EUR 5 million are already palpable in the third quarter of 2012. Cost rationalization continues and remains one of the priorities for improving business results of the Mercator Group.

Marketing activities
Considerable attention is given to the renovation of the marketing mix, especially in Slovenia. Activities are aimed at refreshing stores, the renovation of promotional activities and improved communication with customers. First results of the market shares measurements are already visible and showing the reversal of negative trends.

Persistently harsh macroeconomic environment
Lasting economic crisis and the dip into another recession in the euro zone as economic activity in this region has shrunk for two consecutive quarters have aggravated the uncertainty in the market and led the consumers to take on an even more rational and cautious stance. Economic growth was negative or low in all markets of Mercator's operations; in addition, unemployment rates were ubiquitously high, depressing the consumers' purchasing power. Consumers are increasingly conservative in their shopping decisions and their propensity to save is on the rise. Mercator's performance in the period 1-9 2012 was also affected by a considerable drop in Slovenian imports and exports, lower consumption both in Slovenia and in other markets of the region, and more than 8-percent depreciation of the Serbian dinar.

Revenue growth resting on international sales
In the period 1-9 2012, Mercator Group revenue reached EUR 2,141,284 thousand, which is 72.2% of planned for year 2012. Revenue in Slovenia shrunk by 2% relative to the corresponding period last year. In international markets, however, revenue continued to grow at a rate of 4.4%; assuming constant exchange rates, the growth would have amounted to 9.7%. The highest growth was seen in Bosnia and Herzegovina as Mercator's revenue there soared by 53.7% as a result of the takeover of the company Drvopromet, d.o.o. As at September 30, 2012, Mercator Group had 24,208 employees.

The decision to continue the monetization project by the end of November
Mercator Group invested EUR 55,976 thousand in the development of retail network in the period 1-9 2012, gaining over 43 thousand square meters of new gross area, mostly by operating lease. Real property monetization project included obtaining several non-binding offers by interested investors. In the second round of negotiations, which is currently in progress, Mercator will obtain binding offers; this will be followed by their thorough analysis. The decision on the further progress of the project will be known by the end of November.

Financial Operations
Mercator Group succeeded in reducing its net debt in the period 1-9 2012. Reducing the amount of funds tied up in working capital and the resulting decrease of financial debt remains one of the key

projects at Mercator Group companies. In the period 1-9 2012, we thus managed to decrease the value of inventory by EUR 42 million.

Business performance

A considerable drop in domestic consumption both in Slovenia and in other markets of Mercator's operations and further strong fluctuation of the Serbian dinar exchange rate joined other macroeconomic trends in exerting a negative impact on performance. EBITDA amounted to EUR 95.1 million EUR (61,8% of planned for 2012); Group results from operating activities in the period 1-9 2012 reached EUR 33.8 million (44,2% of planned for the entire year 2012). In the period at hand, Mercator Group ran a loss of EUR 22 million.

New approach with a new strategy

Changes in our target markets also require some changes in the operation of the entire Mercator Group. To this end, the Management Board of Mercator, d.d., formed a new vision and mission of the Group, and specified the principles of corporate activities. The new vision is clear and attainable: Mercator will be the largest, the most successful and the most efficient retailer in the region. Our consumers are placed at the focal point of our efforts as we look to meet their needs and wishes with our key competitive advantage: professional and friendly employees. Mercator Group development will be based on stable ownership structure and confidence of all stakeholders.

INTRODUCTION

MERCATOR GROUP PROFILE

Company profile

The company Poslovni sistem Mercator, d.d., is the controlling company of a group of associated companies (the Mercator Group), one of the largest corporate groups in Slovenia and the entire region of Southeastern Europe.

Full name	**Poslovni sistem Mercator, d.d.**
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Registration number	5300231
VAT tax code	45884595
Court registry date	January 1, 1990
Company share capital as at September 30, 2012	EUR 157,128,514.53
Number of shares issued and paid-up as at September 30, 2012	3,765,361
Share listing	Ljubljana Stock Exchange, d.d., prime market, symbol MELR
President of the Management Board	Toni Balažič
Senior Vice Presidents	Drago Kavšek, Igor Maroša, Stanka Pejanović
Supervisory Board Chairman	Matej Lahovnik
Deputy Supervisory Board Chairman	Rok Rozman

Mercator Group Composition

As at September 30, 2012, Mercator Group included the following companies:

MERCATOR GROUP	
MERCATOR OPERATIONS SLOVENIA AND CROATIA	
Poslovni sistem Mercator, d.d., Slovenia	
Mercator IP, d.o.o., Slovenia (100.0 %)	M - Tehnika, d.d., Slovenia (100.0 %)
M.COM, d.o.o., Slovenia (100.0 %)*	· Mercator centar tehnike d.o.o. za trgovinu i usluge, Croatia (100.0 %)
M - Energija, d.o.o., Slovenia (100.0 %)	Mercator - H, d.o.o., Croatia (99.9%)
MERCATOR OPERATIONS SOUTHEASTERN EUROPE	
Mercator - S, d.o.o., Serbia (100.0 %)	Mercator - B, e.o.o.d., Bulgaria (100.0 %)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)*
M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)	Mercator - A, sh.p.k., Albania (100.0 %)
Mercator - CG, d.o.o., Montenegro (100.0 %)	Mercator - K, l.l.c., Republic of Kosovo (100.0 %)*
MERCATOR REAL ESTATE	
Investment Internacional, d.o.o.e.l., Macedonia (100.0 %)*	Argentum - D, d.o.o., Slovenia (100.0 %)**
Mercator - Optima, d.o.o., Slovenia (100.0 %)	Argentum - E, d.o.o., Slovenia (100.0 %)**
M - nepremičnine, d.o.o., Slovenia (100.0 %)	Argentum - F, d.o.o., Slovenia (100.0 %)**
Argentum - A, d.o.o., Slovenia (100.0 %)**	Argentum - G, d.o.o., Slovenia (100.0 %)**
Argentum - B, d.o.o., Slovenia (100.0 %)**	Argentum - H, d.o.o., Slovenia (100.0 %)**
Argentum - C, d.o.o., Slovenia (100.0 %)**	Argentum - I, d.o.o., Slovenia (100.0 %)**
OTHER OPERATING ACTIVITIES	
Intersport ISI, d.o.o., Slovenia (100.0 %)	Modiana, d.o.o., Slovenia (100.0 %)
· Intersport S-ISI, d.o.o., Serbia (100.0 %)	· Modiana, d.o.o., Serbia (100.0 %)
· Intersport H, d.o.o., Croatia (100.0 %)	· Modiana, d.o.o., Croatia (100.0 %)
· Intersport BH, d.o.o., Bosnia and Herzegovina (100.0 %)	· Modiana, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator - Emba, d.d., Slovenia (100.0 %)	

* The company has not yet commenced its business operations.
** Project-based real estate company, established for real property monetization purposes.

Corporate governance

Supervisory Board of the company Poslovni sistem Mercator, d.d., held ten sessions in the period 1-9 2012. On March 30, 2012, the Shareholders Assembly appointed six new members of the Supervisory Board which held its first session since the most recent appointments on April 10, 2012. At the first session, Mr Matej Lahovnik was appointed the new Supervisory Board Chairman. The Board also appointed the new members of the Audit Committee and the Human Resource Committee. Former five-member Management Board, consisting of Mr Žiga Debeljak, Ms Vera Aljančič Falež, Ms Melita Kolbezen, Ms Stanka Pejanović, and Mr Peter Zavrl, submitted their resignation on March 29, 2012. The Supervisory Board appointed a new Management Board of the company Poslovni sistem Mercator, d.d., assigning Mr Toni Balažič as the President of the Management Board; Mr Drago Kavšek as the Senior Vice President in charge of finance and IT; Ms Stanka Pejanović as Senior Vice President in charge of Mercator operations in Southeastern Europe; and Mr Igor Maroša as the Senior Vice President in charge of operations in Slovenia and Croatia. All new Management Board members were appointed for a term of five years.

MERCATOR GROUP BUSINESS STRATEGY

Vision

Mercator will be the largest, the most successful and the most efficient retailer in the region.

Mission

- A satisfied customer recognizes us as the best retailer that offers everything a discount store can offer, and much more.
- Employees with **smiles on their faces and sparkles in their eyes** are our key competitive advantage. They will be able to develop their potential in a stable environment.
- We are striving towards a **stable ownership structure** that will support the company development based on merit and results.
- Mercator is striving to win the **confidence of all stakeholders.**

Principles of corporate governance

Our work shall be:

Motivated

Elementarily simple

Rational

Common goal oriented

Ambitious

Thorough

Oriented on profitability and development

Rapturous

MAJOR EVENTS IN THE PERIOD 1-9 2012

Retail network development

In the period 1-9 2012, we:

- invested EUR 55,976 thousand,
- divested EUR 2,588 thousand,
- acquired 47 new units spanning 43,091 square meters, which includes real estate owned by Mercator and operating leases.

Strategic combinations

On February 23, 2012, the agreement on strategic combination based on which the company Poslovni sistem Mercator, d.d., increased its shareholding in the company Vesna, Trgovsko podjetje (trade company), d.d., Ljutomer, from 45 percent to 100 percent, thus acquiring seven stores in Northeastern Slovenia, which operated as Mercator franchise units to date. On August 23, 2012, the company was merged with Mercator, d.d.

Corporate activities

In February, the Management Board of the company Poslovni sistem Mercator, d.d., presented the Group performance and operations in 2011, and the plans for 2012. At the press conference in August, the company Management Board presented the results of the first half and measures and targets for the future. On October 18, 2012, the company Supervisory Board confirmed the Mercator Group strategy, prepared by the new Management Board.

On April 24, 2012, Mercator took part in the 7th Day of the Slovenian Capital Market organized by the Ljubljana Stock Exchange in cooperation with the KDD – Central Securities Clearing Corporation, and the event partners Alta Invest, d.d., and NLB, d.d. In addition to company presentations, the event included individual meetings intended exclusively for portfolio investors.

Awards received

At the 12th competition of bread, pastry, and pasta, held by the Bakery Section of the Chamber of Agricultural and Food Companies with the Chamber of Commerce and Industry of Slovenia, Mercator's own bakery Pekarna Grosuplje received the highest possible rating for all nine zero-additive products submitted.

At the POMP Forum 2012, an international content marketing conference, The "Maxi magazin", a Maxi department store newsletter, received a special achievements award for development of content marketing in 2012.

MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-9 2012

	Mercator Group		
	1-9 2012	1-9 2011 restated*	Index 1-9 2012/ 1-9 2011 restated*
Revenue (EUR thousand)	2,141,284	2,126,515	100.7
Results from operating activities (EUR thousand)	33,790	72,142	46.8
Profit before income tax (EUR thousand)	(18,062)	36,185	-
Profit for the financial period (EUR thousand)	(22,002)	27,049	-
EBITDA (EUR thousand)	95,089	133,025	71.5
EBITDAR (EUR thousand)	137,301	165,351	83.0
Capital expenditure (EUR thousand)	55,976	85,464	65.5
Return on sales	(1.0%)	1.3%	-
EBITDA / revenue	4.4%	6.3%	71.0
EBITDAR / revenue	6.4%	7.8%	82.5
Number of employees based on hours worked	23,002	22,354	102.9
Number of employees as at the end of the period	24,208	23,480	103.1

* Considering the changes in accounting policies, revenue for the period 1-9 2011 was restated accordingly. Detailed explanation is provided in the financial report.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1-9 2012

Economic conditions in the markets of Mercator operations in the period 1-9 2012[1]

Economic recovery and positive growth rate seen in 2011 came to an end in the first half of 2012. In the second quarter of the year, gross domestic product in the euro zone dropped by 0.2 percent, or 0.5 percent year on year. In Slovenia, too, the gross domestic product shrunk in the first half of the year, by 1.6% on the first half of 2011. Debt crisis has persisted in the euro zone, even spreading to some other European countries in recent months; in addition, there are still too few real comprehensive solutions for its resolution. Economic activity in the euro zone has been shrinking for two consecutive quarters, which could mean the region is in another recession. Credit activity cannot be expected to recover in the coming months as there are no signs of improvement in the banking markets. This means that access to sources of finance will remain restricted for Slovenia.
According to expectations of the international institutions, the circumstances should start to gradually improve in the second half of the next year. The autumn forecast of the Institute of Macroeconomic Analysis and Development (IMAD) is based on assumptions of degrading economic conditions, stagnation of GDP, and harsh conditions in the financial markets of the euro zone. Further fiscal consolidation is seen by IMAD as the key assumption and prerequisite for improvement of conditions in Slovenia. Annual inflation in the euro zone amounted to 2.6% in August 2012, which is higher than in the month before (2.4%). Increase in consumer prices was mainly fuelled by the rising prices of energy and food. At the end of the year, the year-on-year inflation is forecast at 3.3%.
Domestic consumption in Slovenia has slumped considerably; furthermore, imports have plummeted year-on-year, and exports declined as well. Consumer expectations have grown much more pessimistic as the recession is felt personally by ever larger number of people. The trend of decrease in the number of persons with employment has steadied somewhat in 2011; however, the number of unemployed is expected to rise again in the next year as a result of fiscal restriction and further decline in economic activity.

Average 6-month EURIBOR in the period 1-9 2012 amounted to 0.982%, which is 0.630 percentage point lower than in the corresponding period of the year before (in the period 1-9 2011, the average 6-month EURIBOR was at 1.612%). At the start of 2012, 6-month EURIBOR was at 1.606%; at the end of the third quarter, it was 1.169 percentage points lower at 0.437%. According to analysts' forecasts, the average 6-month EURIBOR will amount to 0.60% in 2012 and 2013. The key interest rate of the European Central Bank was lowered on July 11, 2012, to 0.75%.

In August 2012, Slovenia's rating was downgraded from A2 to Baa2, which translates into more expensive loans for the government and businesses.

[1] Economic conditions are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development – IMAD); Statistical office of the Republic of Slovenia; ECB (European central bank); Republički zavod za statistiku (Statistical Office, Serbia); Državni zavod za statistiku (Statistical Office, Croatia); Federalni zavod za statistiku (Statistical Office, Bosnia and Herzegovina); Central Bank of Montenegro; MONSTAD (Montenegro); National statistical institute (Bulgaria); Institute of statistics (Albania).

Slovenia

GDP growth in the second quarter of 2012 was at -3.2%, while September year-on-year inflation was 1.1%. Economic growth is expected to be negative in the entire year 2012 at -2.0%. For 2012, analysts forecast inflation at a rate of 2.8%, which is 0.70 percentage points more than in 2011.

Serbia

Economic growth in 2012 is expected to be negative at -1.0%, which is 2.6 percentage points lower than the growth rate in 2011. Inflation forecast for 2012 is at 10% (in 2011, inflation rate was at 7.0%). In 2013, GDP growth is expected at 1.2% while the inflation rate is anticipated at 5.0%. Average Serbian dinar exchange rate in the period 1-9 2012 was at RSD 113.02 per 1 EUR. At the start of the year, the exchange rate was RSD 105.79 per 1 EUR, which means the RSD depreciated relative to EUR in the period 1-9 2012 by 8.74 percent. According to forecasts, average exchange rate of the Serbian dinar in 2012 will amount to RSD 115.28 per 1 EUR.

Croatia

In 2011, economic growth rate in Croatia equalled zero; inflation was at 2.3%. GDP growth in 2012 is expected to be negative at -1.2%. According to the analysts, inflation in 2012 is expected at 3.0%. Average annual exchange rate for the Croatian currency in 2012 is expected to amount to HRK 7.56 per 1 EUR (in 2013: HRK 7.55 per 1 EUR). Average rate in the period 1-9 2012 was at HRK 7.52 per 1 EUR.

Bosnia and Herzegovina

In 2011, economic growth in Bosnia and Herzegovina was at 1.9%; in 2012, it is expected to be negative at -0.5%. Inflation rate in this year is expected at 2.2%, which is 1.4 percentage points lower than in 2011. The exchange rate of the convertible mark is pegged to euro at the rate of KM 1.95583 per 1 EUR.

Montenegro

Montenegro's GDP is estimated to grow by 0.4% in 2012. This means the growth rate is lower than in the year before when it stood at 2.5%. Inflation rate in 2012 is expected at 3.5%, which is the same as in 2011. Montenegrin official currency is the euro.

Bulgaria

In 2011, the Bulgarian economy grew at a rate of 1.7%. For 2012, somewhat slower growth is expected, at 0.5%. Inflation for 2012 is predicted at 2.7%; in 2011, inflation rate was 3.4%. The exchange rate of Bulgarian lev is pegged to euro at the rate of BGN 1.95583 per 1 EUR.

Albania

Economic growth in Albania in 2012 is estimated to reach 0.5%; inflation in that year is forecast at 2.0%. In 2011, GDP was higher than forecast for 2012; growth rate was at 3.1%, and inflation rate in 2011 was 1.7%. Economic growth in 2013 is expected to exceed the rate in 2012, which is anticipated at 1.5%; inflation rate is expected at 2.8%. Average Albanian lev exchange rate in the period 1-9 2012 was at ALL 138.79 per 1 EUR. For 2012, the exchange rate is forecasted at ALL 139.70 per 1 EUR.

Changes in consumer behaviour and effect of the market situation on consumption

In recent years, markets of Mercator operations were challenged by the economic crisis which persisted in 2012. **The crisis resulted in an increase of unemployment which has reached new historical highs in key markets of Mercator operations. Consumers are increasingly affected by the negative impact of the economic crisis and their expectations are pessimistic. This is reflected in the changes in shopping behaviour, prudent and rational approach to shopping, and higher propensity to save.**

Slovenian consumers are affected by the harsh economic conditions and they have adjusted their shopping behaviour accordingly; the trend of rationalization of consumption is not subsiding. As many as 80% of Slovenian consumers feel their everyday is affected by the economic crisis, which is three percentage points more than in the spring 2012. Consumers state that their financial status has worsened and as a result, they spend less. In the most recent survey, food and beverages were at the top of the list of products with regard to which consumers are making concessions due to weaker purchasing power: 19% of respondents have made compromises and sacrifices related to food and beverages to some extent.

In Mercator's **international markets**, consumers are also facing the consequences of the economic crisis. Due to low economic growth, rising unemployment, and low personal income, consumer purchasing power remains low. Changes in consumer behaviour are reflected in lower number of shopping sessions (e.g. in Bosnia and Herzegovina), lower value of the shopping basket (e.g. in Serbia, in Croatia and in Bosnia and Herzegovina), and more frequent shopping at discount retail stores (in Croatia and Bulgaria). Price sensitivity of consumers is also exhibited in increased shopping for private label products.

DEVELOPMENT AND REAL ESTATE MANAGEMENT

In the period 1-9 2012, we conducted various development activities to optimize Mercator's real estate management, and analyzed the possibilities of updating the concept of Mercator's shopping centers, improving the mix of products and services there, improving composition of third-party providers, and establishing strategic partnerships with renowned international tenants/brands.

Regarding investment activities, we are moving away from the principle of predominantly constructing our own retail network as we increasingly favour obtaining new retail areas by operating lease. The focus of our investments is on refurbishment or update of the existing retail network. The key refurbishment in the period 1-9 2012 which took place as a part of the Refreshment of FMCG Offer project was the comprehensive overhaul of the Mercator Center Belgrade.

Following are Mercator key goals in real estate management:

Summary of total gross retail area as at September 30, 2012

Gross retail area in m^2	Used for own operations	Leased out	Total
Owned retail area	795,143	190,574	985,717
Leased retail area	398,809	27,112	425,921
Total retail area	**1,193,952**	**217,686**	**1,411,638**
Owned warehouse capacity	142,065	85	142,150
Leased warehouse capacity	52,938	0	52,938
Total warehouse capacity	**195,003**	**85**	**195,088**
Owned commercial facilities	27,777	2,326	30,103
Leased commercial facilities	6,438	43	6,481
Total commercial facilities	**34,216**	**2,369**	**36,585**
GROSS AREA UNDER MANAGEMENT	**1,423,171**	**220,140**	**1,643,311**
- of which owned	964,985	192,986	1,157,971
- of which leased	458,185	27,155	485,340

Investment and Divestment

In the period 1-9 2012, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 55,976 thousand. 56.7% this sum was allocated for investment in Slovenia; 42.9% was invested in currently developed international markets (Serbia, Croatia, Bosnia and Herzegovina, and Montenegro); and 0.4% was invested in new international markets (Albania and Bulgaria).

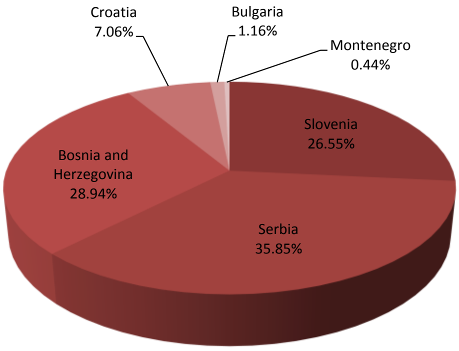
	Capital expenditure 1-9 2012 (in EUR thousand)	Composition (in %)
Slovenia	31,722	56.67%
Serbia	17,241	30.80%
Croatia	3,072	5.48%
Bosnia and Herzegovina	3,010	5.38%
Montenegro	710	1.27%
Bulgaria	212	0.38%
Albania	9	0.02%
TOTAL	**55,976**	**100.00%**

Investments in expansion of retail facilities (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 51.6% of total investments; 34.2% was allocated for refurbishment of the existing facilities; and the remaining 14.2% was invested into logistics, IT, and non-trade activities.

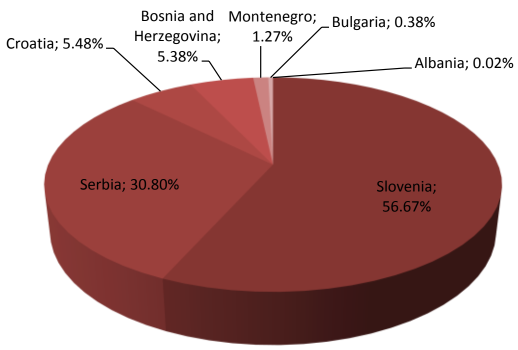
In the period 1-9 2012, the Group acquired 43,091 square meters of new gross area, of which 90.2% was obtained by operating lease and 9.8% was acquired by acquisitions, construction, or extension of existing facilities.

In the period 1-9 2012, Mercator Group divested EUR 2,588 thousand worth of property, plant and equipment.

Share of newly launched facilities by markets



Share of investments by markets



Summary of retail unit launches by markets

SLOVENIA

Area of new facilities: 11,442 m^2

Number of retail units: 8

Openings:

M Tehnika DOM in BTC in Ljubljana, hypermarket in shopping center Supernova in Nova Gorica, Modiana Outlet in Ljubljana (Šmartinska 102), Tehnika Outlet in Maribor (Tržaška 14), Department store Ljutomer, furniture store Ptuj, superettes in Veržej and Križevci

Other openings: petrol stations in Kranj and Ajdovščina

CROATIA

Area of new facilities: 3,042 m^2

Number of retail units: 3

Openings:

Modiana in City Center One East in Zagreb, superette in Vodice, hardware and electronics store in Umag

SERBIA

Area of new facilities: 15,448 m^2

Number of retail units: 4

Openings:

Roda center Valjevo, Roda center Kruševac, supermarket in Čačak, hypermarket Beograđanka in Beograd

BOSNIA AND HERZEGOVINA

Area of new facilities: 12,472 m^2

Number of retail units: 30

Openings:

Stores of the company Drvopromet (28 units) on total area of 10,991 m^2, supermarket in Laktaši and supermarket Nova Varoš in Banja Luka

MONTENEGRO

Area of new facilities: 186 m^2

Number of retail units: 1

Openings:

Superette Dobrota in Kotor

BULGARIA

Area of new facilities: 501 m^2

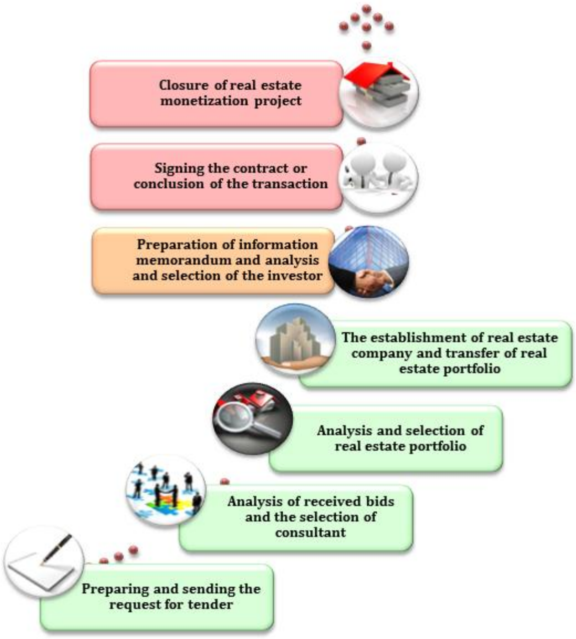
Number of retail units: 1

Openings:

Superette Dianabad in Sofija

Activities of Real Property Monetization

Global real estate consultancy Cushman & Wakefield from Great Britain was selected in 2011 based on an international tender as the consultant for the real estate monetization project; thus, the activities to carry out the project were commenced. Working with this consultancy, we specified the portfolio of real property to be offered for sale to international investors. Law firm Schoenherr, working with the law firm SJ Berwin, was selected as the legal consultant for the project, after they proved the best bidder in the international tender. We founded 9 project companies through which the monetization of real property will be effected, consistently with the prevailing international practice.



In mid 2012, we developed the list of investors, sent the documentation and obtained non-binding offers for sale and leaseback of the selected part of real property portfolio in Slovenia. This was followed by development of documentation for the second round of negotiations with selected investors, based on which Mercator will obtain binding offers by investors. The documentation includes the following most important documents: reports on surveying activities, environmental reports, due diligence reports, all basic contracts required for the transactions, and development of marketing websites to present the information on the real estate to selected investors.

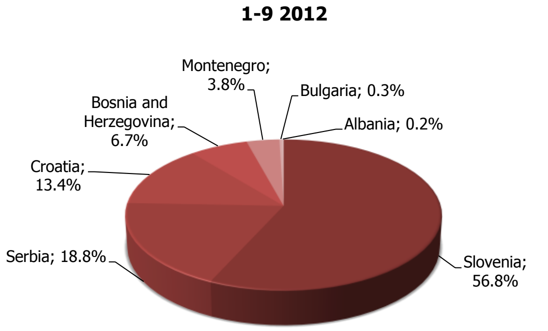
After the binding offers are obtained from the investors, the transaction will be completed. Final decision as to the method, scope, and timeline of the project implementation will be adopted after the investors' binding offers are received. If the binding offers, which are expected by the end of November, will be in line with our expectations, we plan to carry out the real estate monetization in the coming months. Proceeds from monetization will be allocated for reduction of the net debt of the Mercator Group.

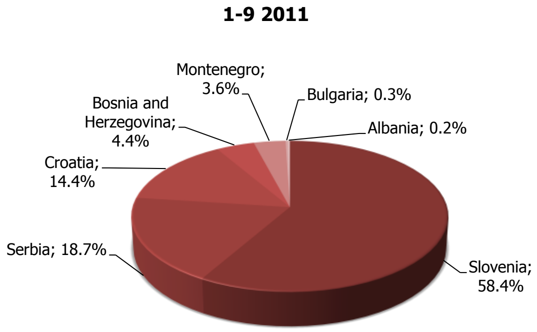
SALES AND MARKETING

Sales

In the period 1-9 2012, Mercator Group generated EUR 2,141,284 thousand of revenue, which is 0.7 percent more relative to the period 1-9 2011. Majority of Group revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods. Revenue dropped by 2 percent in Slovenia; in foreign markets, the growth amounted to 4.4 percent.

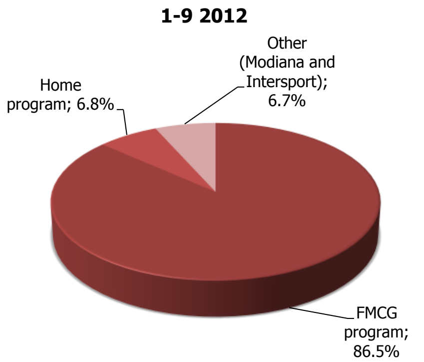
Mercator Group revenue by geographical segments:

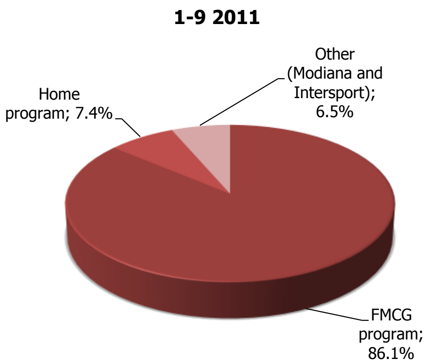




Mercator Group revenue from trade operations by programs:

In the period 1-9 2012, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods as they accounted for 86.5% of the total figure; revenue from other specialized programs amounted to 13.5%.





Marketing

At Mercator Group, the consumer is always at the heart of our efforts. By conducting the activities for our customers we are pursuing our vision to be the largest, most successful, and most efficient retailer in the region. Our goal is to please the customers who insist on giving priority to quality, safety, and product origin, despite the effects of the crisis and the tendency to choose cheaper products.

Following are our key policies:

1. Mercator is providing **competitively priced offer**.
2. Mercator is developing **high-quality private label products**.
3. Shopping offered by Mercator is **transparent**, **simple**, and **well-priced**.
4. Mercator is committed to **sustainability** for the benefit of the consumer and the environment.

1. Mercator is providing competitively priced offer.

In a time when consumers are curbing their spending and searching for inexpensive shopping, Mercator is carefully planning and conducting marketing activities in order to offer the most at the best price. In addition to regular and theme-oriented campaigns, we have also included products of renowned brands in our special activities "buy one, get one free" and "buy two, get one free", offered products at attractive rounded prices, and promoted examples of family meals at very good prices in our flyers.

The sales promotion activities are adjusted carefully and deliberately to the local characteristics of individual markets. Key activities in the markets of Mercator's operations in the first nine months of 2012 included the following:

Country	Key activities
Slovenia	In addition to regular, theme-oriented, and weekend campaigns presented in our flyers, our sales promotion activities included additional campaigns and offers intended to increase the number of shoppers and turnover: the -20% coupons for selected products, double Pika points, "5 per day" campaign, "Cheer with us" prize drawing, and customer loyalty programs Dormeo, M holidays, Smurfs, Ice Age. Tuesday discounts and Thursday retiree discounts were joined by additional 10% discount for retirees on pension day. Our regular offer was extended with the "Good Price" project which includes products by major brands at reasonable regular prices, specially highlighted at the stores.
Serbia	In addition to regular and weekend campaigns at the Mercator and Roda stores, the following activities are in progress at Roda format stores: "Super offer, supper price", 10% weekend discount, and Wednesday retiree discount. At Mercator stores, activities include "The best offer, the best prices", Tuesday's discount, and Wednesday's retiree discount at the Niš hypermarket. Working with our suppliers, we are organizing the continuous bi-weekly activity "Presenting our Suppliers". Regular and extra flyers of M Tehnika and Roda Tehnika (technical consumer goods stores) are distributed and discounts are offered on selected products. We have carried out two customer loyalty projects: Delimano and Dormeo Go!

Country	Key activities
Croatia	In the first half, activities differed by formats (Mercator, Getro, and Getro market). In July, activities were made uniform in order to simplify communication with the customers and to improve our special offers. We are now issuing a single coupon booklet for the Mercator Pika and GFC card holders, and we are distributing joint direct mail in which we are communicating right-priced Saturday shopping (10% discount or discount above a certain amount spent) and special offers. We also introduced a joint weekly flyer for all formats, which has more pages and higher circulation. We also merged our TV ads for all formats. On Thursdays, we are offering retiree discounts; we implemented the "5 per day" project and the customer loyalty programs Delimano and Dormeo Go!.
Bosnia and Herzegovina	Regular and weekend campaigns are carried out at the Mercator and DP Market formats. Tuesday discounts and Thursday's retiree discounts are offered at Mercator stores. At DP Markets, "Price of the Day" activity is carried out each Monday; on Tuesdays, discounts are offered to DP card holders. Additional activities aimed at increasing sales include linked purchases which include offering 10-percent discount coupons for the Modiana, Intersport, and Beautique stores. We have carried out two customer loyalty projects: Delimano and Dormeo Go!
Montenegro	We are conducting regular and weekend campaigns at Mercator and Roda formats, as well as additional campaigns for promoting sales at critical locations, Thursday's retiree discounts, and Tuesday discounts at Mercator stores. Working with our suppliers, we are organizing the continuous bi-weekly activity "Presenting our Suppliers". We have carried out two customer loyalty projects: Delimano and Dormeo Go!
Bulgaria	Regular activity of weekly and bi-weekly flyers, retiree discount, additional activities at critical locations, "Super Tuesday" activity at the Dianabad supermarket. We have carried out two customer loyalty projects: Delimano and Dormeo Go!
Albania	Continuous monthly activity "Special Offer" and "Smart Shopping"; special weekend campaigns and Tuesday discount. We have carried out two customer loyalty projects: Delimano and Dormeo Go!

In Slovenia, we regularly conducted in 2012 our monthly corporate campaigns of awarding **double Pika bonus points** at food stores, Hura stores, franchise stores, M holidays and HoReCa outlets, Modiana stores, Intersport stores, and Beautique drugstores, and **triple Pika bonus points** at M Tehnika, M Gradnja (construction), M Pohištvo (furniture), and M Tehnika (technical consumer goods) web store.

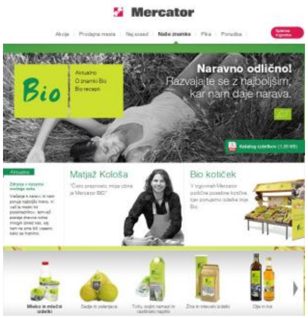
At M Tehnika, we introduced a new activity called "**Magnetic Products**", which includes discounts on popular or attractive products by 30 percent or more relative to the regular prices for that product in the market.

2. Mercator is developing high-quality private label products.

Mercator private label products represent a quality and reasonably priced choice for the consumers. The range of products is continuously expanded. A total of **twelve lines** provides comprehensive offer of alimentary products, household products, apparel and other textile products, technical consumer goods, cosmetic products, baby care products and toys, ready-made food, and products for a healthy diet.

We redesigned the packaging concept for most product categories within the central **Mercator line** and launched the first redesigned categories. Launches were supported by point-of-sale communication and ads in the media, emphasizing the key advantages such as Slovenian origin for dairy products and completely new line for ice cream, while launch of beverages and snacks was integrated into a pleasant cheering atmosphere of events such as the UEFA Championship. In September, we worked with Ms Valentina Smej Novak to support the launch of five products titled "The Choice of Common Sense". The campaign included publishing her recipes prepared using our products.

We renamed and revised the appearance of the "Healthy living" line which is now available with its new visual identity and the name **Active Life.** Products of this line are carefully selected in compliance with the recommendations and modern trends in healthy nutrition.



We are successfully expanding the assortment of organic products labelled **Bio**. 66 different products are currently in offer. Their suitability is controlled by the Institute of Control and Certification of the University of Maribor. We revised our Mercator Bio website to offer consumers information on our products, many recipes, and other contents related to organic growing.

We are actively expanding and upgrading the assortment of the **MyBody** cosmetics line and revising the visual identity and quality of the existing products in order to make them even more attractive for the consumers.

Our offer was further enriched by the new product line called **Pro Magic** available exclusively at Mercator stores. The line offers cleaning products for home and household.

At the 12th competition of bread, pastry, and pasta, Mercator's in-house bakery **Pekarna Grosuplje** received nine gold medals for quality and the highest scores for zero-additive products (Krjavelj, Malnar, Sosed, Wholegrain bread, Dolenc, Homemade bread, Buckwheat homemade bread, Corn homemade bread, and Korošec). The gold medals were presented by the Bakers Section of the Chamber of Agricultural and Food Companies at the Slovenian Chamber of Commerce and Industry.

3. Shopping offered by Mercator is transparent, simple, and well-priced.

In early 2012, Mercator launched the modernization of retail network in Slovenia and in Croatia. In the period 1-9 2012, we comprehensively refurbished a large number of supermarket format stores: we introduced new technologies, visual identity, and transparent tagging; we revised the offer (e.g. adding the service of baking pizzas, extending the fresh produce departments, extending the offer of ready-made products); and we improved energy economy.

We have been offering our customers various benefits with the **Mercator Pika** customer loyalty card for the 13th year. We appreciate and reward the loyalty of our customers by awarding double and triple Pika bonus points, offering discounts on selected products (special Pika discounts), offering deferred payment without charging any interest, and by offering 3-6% discount on the entire offer subject to the amount of collected Pika points.

At Mercator, we are constantly expanding and improving our offer of quality services. Thus, we have added **new travel arrangements** (we issued a new catalogue Spring-Summer, revised the M Holidays website and issued a flyer for the summer and fall holidays), as well as the **Photo Finish** photo services.

In 2012, we opened the **M Maxen** petrol stations (Kranj, Velenje, Ajdovščina) which are located next to Mercator Centers. In April, we launched the test stage of the M Maxen customer bonus system which includes the following M Maxen petrol stations: Kranj, Ajdovščina, Velenje, and Novo mesto.

4. Mercator is committed to sustainability for the benefit of the consumer and the environment.

At the end of August, Slovenian local offer and offer from farms was upgraded with the project titled **"From the Home Country. 100% Slovenian"**. At over 100 stores, we dedicated a special area operating by the principle of a market, with the service of a "market vendor", offering **seasonal, fresh offer** of fruit and vegetables grown in Slovenia.

Digital Communication

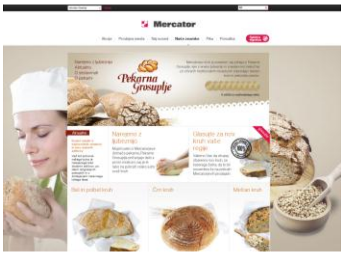
In the period from January to September 2012, key digital communication activities include the following:

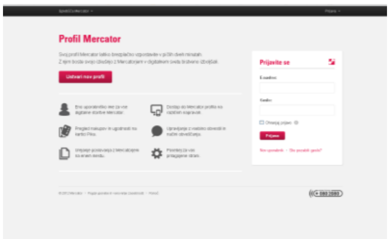
- revision of Mercator web store,
- upgrade of shopping experience via mobile phones,
- testing and introducing the Mercator profile and Mercator banner,
- gradual revision and upgrade of Mercator websites,
- active communication with our employees via intranet portal.

Websites and web stores

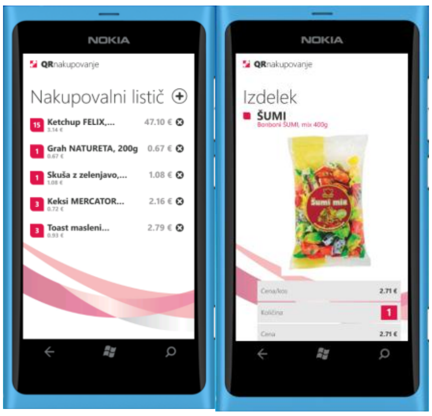
In the Period 1-9 2012, we:

- revised and upgraded our website www.mholidays.si,
- set up new presentation websites for Mercator centers MC Maribor Tabor II, MC Ljubljana, MC Kranj Primskovo, MC Koper, and MC Celje, at our central website at www.mercator.si,
- revised the websites of private label lines Mercator Bio and Pekarna Grosuplje,
- upgraded the websites at www.modiana.si,
- set up a new website www.mercatorpremium.rs for the Mercator Premium store format in Serbia,
- we revised our Croatian website www.mercator.hr,
- refurbished the "My Pika" portal in Croatia,
- tested the M profile and successfully integrated the Mercator banner to the website at www.mercator.si.





At the end of September 2012, we expanded the testing of the service "Click and Collect" to a wider project group. Some specific aspects of integration of back office systems are still being worked on and the user experience is being polished. At the same time, adjustment of shopping via mobile phones is in progress as we work with the company Microsoft on the Windows Mobile platform and the new Windows 8 platform.



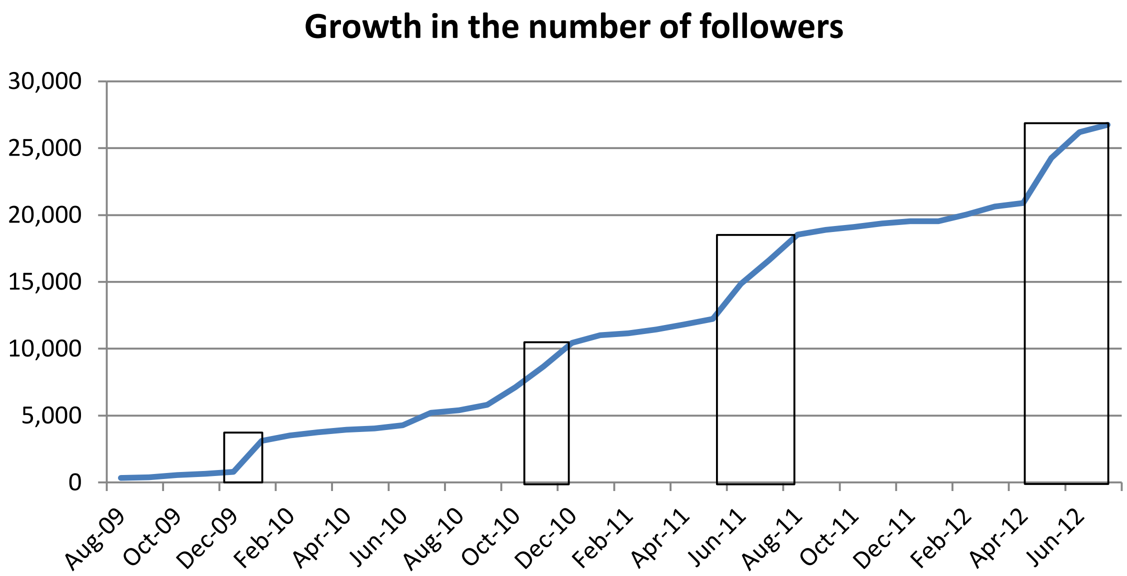
In order to offer our visitors and customers a pleasant user experience and availability of offer and current information, we prepared in October an extensive analysis of the key Mercator and web store websites. This will be the foundation for developing a strategy of presence in the digital media for the next three years.

Activities on social networking sites

The following activities were carried out in the period from January to September 2012:

- regular monthly advertising through Facebook ads;
- short prize drawings and prize drawings on Mercator Facebook wall (predict the result, Ice Age, Olympics, and Project "Local");
- revision of the operative communication plan for the social networks Facebook and Twitter.

It is evident that introduction of regular monthly advertising on the Facebook platform and higher activity on the network have contributed to steeper and more notable growth of the number of followers. Peaks can be seen in January 2010, November and December 2010, June and August 2011, while the next highest growth has been seen from March 2012 on.



Through short prize games we presented promotional materials and informed the customers about the novelties at our stores.

Communication plan for the Mercator brand on Facebook and Twitter was developed in 2008. As the World Wide Web and the trends are changing, the plan was revised this year. We had to analyze our existing presence and prepare, based on its efficiency, a new strategy which shall include all functionalities of Facebook for our brands. Operative plan of the communication strategy includes an analyses of the current brand activities on Facebook.com, benchmark analysis of our competitors, examples of good international practice, and starting points (in terms of content) for further appearance of our brand on the network Facebook.com. Activities of the communication strategy operative plan will be implemented gradually.

Store Formats

Currently, Mercator Group's retail units are present in seven markets of different economic maturity. This requires adjusting our operations to the needs of the customers in each market. To this end, Mercator has put in place a **multi-level strategy of store brands** and a **multi-format strategy** with a broad range of store formats. These are intended to cater to major, previously planned shopping sessions, as well as minor, daily or occasional shopping for fast-moving consumer goods, technical consumer goods, cosmetics, and sportswear.

MULTI-LEVEL STRATEGY OF STORE BRANDS and MULTI-FORMAT STRATEGY

Slovenia	Current foreign markets	New foreign markets
Slovenia	Serbia, Croatia, Bosnia and Herzegovina, Montenegro	Bulgaria, Albania
Mercator, M Tehnika, Intersport, Modiana, Holidays, Maxen, mobil	Mercator, Roda, Getro, Getro market, Marketi, M Tehnika, Intersport, Modiana	Mercator, Roda, Intersport

Fast-moving consumer goods

Mercator Group has developed a dense and extensive retail network throughout Slovenia and other countries, providing high-quality offer to meet every customer's desires, tastes, and needs. We are working to bring our shopping centers, hypermarkets, supermarkets, neighbourhood stores, convenience stores, Hura! discount stores, and the web store as close as possible to the customers, and to provide a pleasant shopping experience.

Home products

Mercator Group is offering home products in stores called M Tehnika (technical consumer goods), M Gradnja (construction), and M Pohištvo (furniture); the offer of products is complemented by favourable terms of payment. The offer includes high-quality and reliable construction materials, modern furniture and equipment for every room in the home and office, modern home appliances and major appliances, and consumer electronics by globally renowned manufacturers. In order to accommodate the consumers' rapid pace of every day even better, we also offered technical consumer goods in our web store.

Other operating activities

In order to present a comprehensive offer to consumers, Mercator Group has been developing additional business activities that include the offer of sportswear at the Intersport stores, apparel at Modiana stores, Maxen self-service petrol stations, and M holidays tourist services. Mercator Group also includes the manufacturing company Mercator-Emba, d.d.

Composition of retail units as at September 30, 2012

COUNTRY	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO	ALBANIA	BULGARIA	MERCATOR GROUP		
ACTIVITY	**Number of units**	**Number of units**	**Number of units**	**Number of units**	**Number of units**	**Number of units**	**Number of units**	**Number of units**	**Gross sales area**	**Net sales area**
Hypermarkets	22	17	13	7	2	1	2	64	299,912	196,991
Supermarkets	129	47	29	32	10	-	1	248	269,550	174,328
Neighbourhood stores	333	51	40	49	72	2	1	548	194,663	112,627
Convenience stores	2	-	1	1	-	-	-	4	6,544	3,752
Getro market	-	-	22	-	-	-	-	22	11,785	7,461
Cash & Carry	13	5	16	-	-	-	-	34	136,912	95,770
Hard discount stores	7	-	-	-	-	-	-	7	4,671	3,401
Restaurants	22	7	-	2	1	-	-	32	9,870	5,954
M holidays	13	-	-	-	-	-	-	13	229	229
TOTAL FMCG program	**541**	**127**	**121**	**91**	**85**	**3**	**4**	**972**	**934,136**	**600,515**
Home program	55	13	13	-	-	-	-	81	115,600	70,931
Furniture program	15	2	-	-	1	-	-	18	25,389	19,433
TOTAL home program	**70**	**15**	**13**	**-**	**1**	**-**	**-**	**99**	**140,989**	**90,364**
Clothing program and drugstores	**89**	**15**	**34**	**12**	**-**	-	-	**150**	**67,556**	**56,268**
Clothing program	72	8	34	8	-	-	-	122	64,379	53,558
Drugstores and perfumeries	17	7	-	4	-	-	-	28	3,177	2,709
Intersport	**32**	**10**	**27**	**9**	**2**	**2**	-	**82**	**51,272**	**39,299**
TOTAL specialised programs	**121**	**25**	**61**	**21**	**2**	**2**	**-**	**232**	**118,828**	**95,566**
TOTAL retail units under management	**732**	**167**	**195**	**112**	**88**	**5**	**4**	**1,303**	**1,193,952**	**786,444**
Franchise stores	**223**	**36**	**48**	**-**	**-**	**-**	**-**	**307**	**53,090**	**34,899**
TOTAL with franchise stores	**955**	**203**	**243**	**112**	**88**	**5**	**4**	**1,610**	**1,247,042**	**821,343**

Composition of retail units is not comparable between the periods due to the changes in the classification of retail units.

Development of New Technological Solutions

In order to be perceived as a modern and innovative retailer, Mercator is looking to keep up with the latest technological solutions that reduce energy consumption and waste, provide pleasant and stimulating shopping experience for the customers and a pleasant and healthier working environment for the employees.

Development of New Store Concepts

Hypermarkets

The new concept of Mercator minor hypermarkets brings fresh produce to the fore of Mercator's offer. These products are offered at the entrance to the store. Another novelty in the offer is the "Minute" department located directly at the entrance into the store, which allows the customers to quickly and simply, from the walkway, purchase freshly prepared food suitable for immediate consumption.

In May, a new and attractive hypermarket was opened in **Nova Gorica**, which employs a modern sales concept as a response to the shopping trends and offers our customers a pleasant shopping experience.

In August, **Mercator Ljubljana Šiška**, our largest hypermarket in Slovenia, also saw a minor refreshment. The refurbishment is or response to the current trends appearing in the market (increasing price sensitivity, appreciation for quality locally-grown food, rational behaviour in shopping for non-market program goods, and preference of special offers and seasonal products over regular offer). To make our presentation more effective, we therefore allocated more retail area to special offers and seasonal products, and introduced the project of Mercator Market which uses the slogan "From the Home Country".
In the coming months, we are planning to roll out such adjustments of non-market products at other hypermarkets as well.

In Serbia, we opened in September the completely refurbished **Hypermarket Belgrade**. The concept of each department has been developed to emphasize the visual elements (lighting, comprehensive visual identity of departments, labelling, equipment, technologies, extras etc.). Fresh program departments are combined to evoke the feel of a marketplace and the layout with a varied shopping street/walkway highlights particular departments of target categories that are of particular importance for Mercator.

Neighbourhood stores

Smaller neighbourhood stores are a competitive advantage for Mercator in the changing market conditions, owing to their good locations and wide regional coverage. In order to utilize these units, we launched a campaign to reposition this store format to maintain and consolidate the position of the best neighbour in every neighbourhood, one that is "always there, caring, friendly, and involved in the local community". We wish to contribute to the benefit of the neighbourhood and our customers by offering excellent fresh program and innovative ideas for the mix of products and services that will make our customers' lives easier.

Convenience stores

As an innovative retailer that keeps up to date with the modern market trends, we actively approached the development of the store format of convenience stores. The offer at this format is adjusted to each particular micro location and its main mission is to allow quick shopping and varied choice of ready-made products for a customer in a hurry.

Comfort stores

As for the convenience store, the comfort store, too, relies on flexibility and adaptability to a certain micro environment and the needs and wishes of its shoppers. The store does not have a standardized program mix; rather, the mix is adjusted to the requirements of the customers at each location.

Comfort stores are typically located in city centers (either as independent stores or as a part of upscale department stores or shopping centers). Their offer is adjusted to demanding customers who expect excellent offer and services for particular segments (e.g. select deli products, cheeses, wines, spirits, sweets etc.). Comfort store's reputation of excellent offer and service will attract affluent customers from all parts of the city regardless of the price.

Mercator opened first such store in Ljubljana in 2008 (basement level of the Maximarket department store), another in Sarajevo in 2010 (Alta), and the third one in Belgrade at the end of June this year (Beograđanka).

Beograđanka is a **prestigious store** both in terms of **offer** (which includes, in addition to the basic offer, prestigious or gourmet products) and **sales services** (which present added value in shopping; the stress is on excellent service and fresh program), as well as **overall appearance of the store** (polished visual merchandising, attractive department layout, technological equipment).

FINANCIAL MANAGEMENT

Net financial debt

Net financial debt of the Mercator Group as at September 30, 2012 amounts to EUR 1,038,394 thousand, which is 5.0% less than as at September 30, 2011.

in EUR thousand	Sep. 30, 2012	Dec. 31, 2011	Sep. 30, 2011	Index Sep. 30, 2012/ Sep. 30, 2011
Non-current financial liabilities	705,583	822,145	855,660	82.5
Current financial liabilities	425,010	362,588	320,594	132.6
Derivative financial instruments (liabilities)	4,975	4,562	4,224	117.8
Financial liabilities including derivative financial instruments	**1,135,567**	**1,189,295**	**1,180,479**	**96.2**
Cash and cash equivalents	30,668	27,540	15,283	200.7
Derivative financial instruments (assets)	8	158	225	3.4
Available-for-sale financial assets	1,285	2,628	3,851	33.4
Loans and deposits	65,212	67,824	67,797	96.2
Financial assets	**97,173**	**98,150**	**87,155**	**111.5**
NET FINANCIAL DEBT	**1,038,394**	**1,091,145**	**1,093,323**	**95.0**

Working capital management

The Mercator Group Working Capital Management project included in the period 1-9 2012 implementation of further measures to reduce the funds tied up in working capital. Thus, inventories were decreased in the period 1-9 2012 by EUR 42,105 thousand; Mercator Group net working capital was reduced by EUR 85,257 thousand. Mercator Group shall continue to conduct the working capital optimization project in the future.

Diversifying the Sources of Financing

Long-term operating lease of stores is a very important form of financing for the Mercator Group. In these arrangements, Mercator leases a store from the current owners or local real estate partners.

In the first three quarters of 2012, Mercator Group decreased its debt by EUR 53 million relative to the figure from December 31, 2011.

Ratio of variable to fixed or hedged financial liabilities

As at September 30, 2012 the ratio between variable and fixed or hedged financial liabilities at the Mercator Group amounted to 47.5% vs. 52.5% (as at September 30, 2011, the ratio was at 43.4% vs. 56.6%).

Financing costs

Average 6-month EURIBOR in the period 1-9 2012 amounted to 0.982%, which is 0.630 percentage point lower than in the corresponding period of the year before (in the period 1-9 2011, the average 6-month EURIBOR was at 1.612%). At the start of 2012, 6-month EURIBOR was at 1.606%; at the end of the third quarter, it was 1.169 percentage points lower at 0.437%.

Debt to equity and current to non-current financial liability ratio

As at September 30, 2012 Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.48. The ratio is a quotient between equity which includes share capital as reported in financial statements, and net financial debt.

In the period 1-9 2012, Mercator Group slightly worsen the composition of financial liabilities by maturity. The share of long-term financial liabilities as at September 30, 2012, amounted to 62.4% (72.7% as at September 30, 2011).

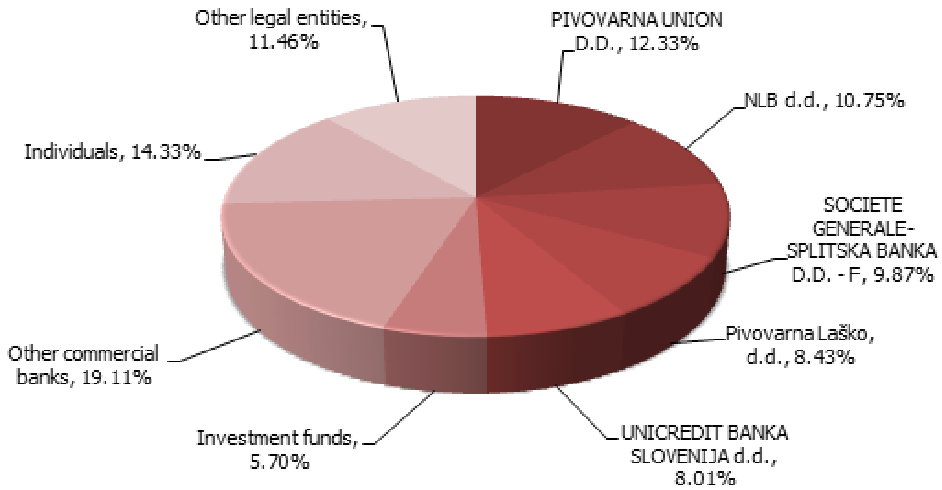
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at September 30, 2012

Code / Symbol	**MELR**
Type	Ordinary share
Listing	Prime market of Ljubljana Stock Exchange, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	14,982

Ownership structure of the company Poslovni sistem Mercator, d.d., as at September 30, 2012



Major Shareholders

As at September 30, 2012, the following ten largest shareholders combined owned 67.10 percent of the company.

	Major Shareholders	Country	Number of shares	Share
1	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2	NLB d.d.	Slovenia	404,832	10.75%
3	Societe Generale-Splitska banka, d.d.	Croatia	371,734	9.87%
4	Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
5	UniCredit banka Slovenija, d.d.	Slovenia	301,437	8.01%
6	Nova KBM d.d.	Slovenia	197,274	5.24%
7	GB d.d., Kranj	Slovenia	142,920	3.80%
8	Prvi faktor - faktoring, d.o.o., Beograd	Serbia	125,963	3.35%
9	Abanka, d.d.	Slovenia	103,400	2.75%
10	Radenska, d.d.	Slovenia	96,952	2.57%
		Total	**2,526,400**	**67.10%**

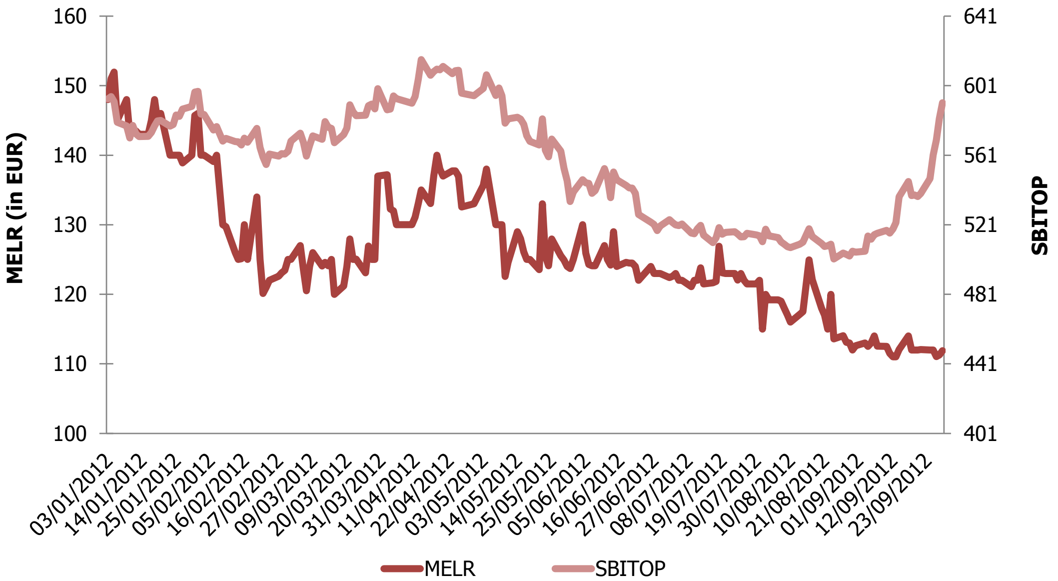
Foreign shareholders

As at September 30, 2012, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **20.23 percent**, which is 2.80 percentage point more than at the end of 2011.

Shares held by Management and Supervisory Board Members as at September 30, 2012

	First and last name	Position	Number of shares	Share
	Management Board			
1	Toni Balažič	Management Board President	0	0.0000%
2	Drago Kavšek	Senior Vice President	0	0.0000%
3	Stanka Pejanović	Senior Vice President	0	0.0000%
4	Igor Maroša	Senior Vice President	0	0.0000%
		Total	**0**	**0.0000%**
	Supervisory Board			
1	Matej Lahovnik	Supervisory Board Chairman	0	0.0000%
2	Rok Rozman	Deputy Supervisory Board Chairman	0	0.0000%
3	Boris Galić	Supervisory Board member	0	0.0000%
4	Zdenko Podlesnik	Supervisory Board member	0	0.0000%
5	Marjeta Zevnik	Supervisory Board member	0	0.0000%
6	Mateja Širec	Supervisory Board member	36	0.0010%
7	Sandi Leban	Supervisory Board member	0	0.0000%
8	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	**36**	**0.0010%**

Movement of closing price per MELR share in last nine month, compared to the movement of the SBITOP index



Key information for the shareholders

	Sep. 30, 2012	Dec. 31, 2011	Index
Number of shares entered in the Court Register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	421,343,896	553,508,067	76.1
Market price per share (in EUR)	111.90	147.00	76.1
Book value per share (in EUR)	219.05	221.81	98.8
Minimum close rate in the period (in EUR)	111.00	136.00	81.6
Maximum close rate in the period (in EUR)	151.95	182.00	83.5
Average close rate in the period (in EUR)	126.19	162.85	77.5

Market capitalization is calculated by multiplying the number of shares entered into the court register as at the end of the period with market price per share as at the end of the period.
Share book value is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at the end of the period, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Dividend policy

As at 18th regular Shareholders Assembly held on March 30, 2012, the resolution on the payment of dividends in the amount of **EUR 6.00** per share was adopted. On May 29, 2012 the company Poslovni sistem Mercator, d.d., began to pay dividends in total amount of EUR 22,339 thousand.

Treasury shares

As at September 30, 2012, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In period 1-9 2012, the company neither acquired nor disposed of treasury shares.

RISK MANAGEMENT

Management of key risks in the period 1-9 2012

Risk is defined as any uncertainty regarding future business events, which can decrease the probability of attainment of the business goals laid down or the level of attainment of business goals, thus bearing a negative effect on the performance. Active risk management is geared towards the objective of timely recognition and response to potential threats by developing appropriate measures to hedge against identified risks or to reduce risk exposure.

In the first three quarters of 2012, challenging economic conditions in global financial markets put a damper on the entire economic environment both globally and in the markets of Mercator's operations. This was reflected in notable drop in retail demand and a change in the composition of consumption, as well as in the persistence of the trend of uncertainty with regard to financial risks. For Mercator Group, systematic and deliberate risk management is of key importance in such difficult economic environment.

Business Risks

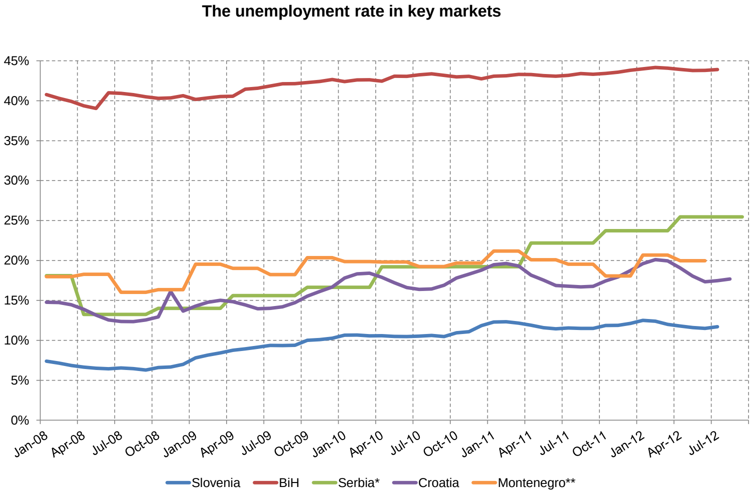
Business risks are related to company operations and its’ core activity.

Risks in the operations of trade companies increase as a result of economic conditions due to changes in the shopping behaviour of the consumers, and particularly due to a drop in their purchasing power. <u>The unemployment rate is the key indicator of purchasing power and the sense of security on the part of the consumers. In recent months, this category has reached the highest levels of recent years in the key markets of Mercator's operations.</u>

Risk of a decline in purchasing power

Assessment of the risk of a decline in purchasing power (size of market) due to challenging economic conditions.

The risk of a decline in purchasing power is related to the rate of economic growth, unemployment rate, increase in personal income, and changes in the prices of essentials. Economic situation had a negative impact on the consumers' disposable income. In **Slovenia**, GDP is expected to drop by about 2 percent in 2012. Unemployment rate in the period 1-9 2012 was higher (12%) than in the year before. In **key international markets** of Mercator's operations, unemployment rate is even higher than in Slovenia; moreover, it – with the exception of Montenegro – continues to rise. In Mercator's international markets, average income is notably lower than in Slovenia. In the long run, we may expect these markets to converge and close in on the gap in development; however, in a time of economic slowdown, considerable increase in purchasing power cannot be expected even in the medium run. Increase in wages has been low in all markets and its effect has been neutralized by the increase in the consumer prices.



* Survey measurement; semi-annual data are extrapolated to the monthly level.
** Survey measurement; quarterly data are extrapolated to the monthly level.

Risks of failure to attain the planned profit margin

Assessment of the risk of failure to attain the planned profit margin.

This year's transition to net-net pricing has revealed the need for daily and even more efficient management of regular and special offer retail prices. One effect of the transition to the new system is higher risk of failure to attain the planned profit margin. This risk, however, is being managed particularly by monitoring all key performance indicators on a weekly basis.

Risks of sub-optimum marketing mix and effects of the competitive environment

Assessment of risk based on market conditions and Mercator's position in the Group's target markets.

At Mercator Group, we are regularly monitoring the perception of key elements of the marketing mix and in the period 1-9 2012, we further pursued the implementation of the measures adopted to mitigate the risk of sub-optimum marketing mix and effects of the competition.

Adjustment of marketing mix is in progress at the smallest stores. We have established new assortments in order to offer the best-selling products at our stores at any moment. Major progress has been made in terms of improvement of private label product quality as well.

Risks in the supply process

Assessment of global and local impact on Mercator's supply processes.

In the period 1-9 2012, we worked with proven suppliers with whom operations are clear and transparent. This allows timely identification of problems that suppliers are facing in the aggravated economic conditions, and prompt adjustment to reduce the possibility of delivery failures. Regular monitoring and checking of supplier rating allows timely redirection to new supply sources.

Due to hiked prices of fuel and unprocessed food, Mercator Group is facing pressure to increase retail prices for products that are sensitive to energy price fluctuations. Mounting prices of raw materials resulted in upward pressure on the prices of meat, meat produce, flour, mill products, bread, and edible oil. The risk is being mitigated or dispersed by carefully planned purchasing policy and selection of different suppliers for each category. Lower purchasing prices and better supply channels are attained by combining our procurement operations with those of our subsidiaries in Southeastern Europe. We are joined by Mercator - H, d.o.o., in joint purchasing of seasonal assortment and home products.

We seek to mitigate local effects on the supply processes by managing the risks of delivery failures. Supply processes are supervised on monthly basis and corrective measures are adopted to reduce such effects.

Financial risks

Financial risks are those that may negatively affect the ability to generate cash flows, management of cash flows, maintaining the value of financial assets, and managing financial liabilities.

Economic activity slowed down in the euro zone and the forecasts for the future of the euro zone were adjusted downward. Also notable was the drop in consumer confidence and a high unemployment level – currently over 11%. Central banks continue to adopt an expansionary monetary policy which has an effect on the euro zone economy; however, access to financing sources will remain restricted.

Credit risk in wholesale

Assessment of the risk that receivables from business partners resulting from deferred payment will only be settled partly or not at all.

In order to manage the credit risk in wholesale, Mercator Group further restricted the exposure to individual customers, hired an external agency to collect some of the receivables, and thus increased the number of offsetting operations, both multilateral and bilateral. Mercator Group demanded first-rate insurance from customers with a weaker rating. In addition, Mercator Group is regularly monitoring exposure to individual customers. Contracts signed with new wholesale customers included clauses on obligatory offsetting, and annexes were signed in this regard with the existing customers.

Payment delinquency can also be observed with Mercator Group business partners, which increases their credit risk, including the credit risk in wholesale.

Mercator Pika card credit risk

Assessment of the Mercator Pika card credit risks (possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all).

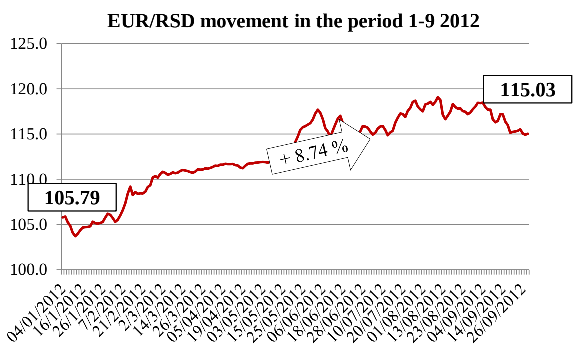
The following measures are in place to manage the credit risk related to Mercator Pika card:

- daily monitoring and control of the Mercator Pika card receivables;
- proactive collection of receivables from the Mercator Pika card holders;
- SMS (text message) notices;
- regular monitoring of operations with the Mercator Pika card.

Currency risk

Assessment of the loss of economic benefit due to changes in exchange rate.

Currency risk exposure is relevant especially at companies in Croatia and in Serbia where fluctuations in exchange rates are considerable. Changes in the exchange rate of the Serbian dinar could be seen in the period 1-9 2012 as the average dinar rate in the period reached RSD 113.02 per 1 EUR, depreciating relative to the euro by 10.91 percent on equivalent period last year when it amounted to RSD 101.90 per 1 EUR. Average exchange rate of the Croatian kuna in the period 1-9 2012 was HRK 7.52 per 1 EUR. In the corresponding period of the year before, average Croatian kuna exchange rate was at HRK 7.41 per 1 EUR.



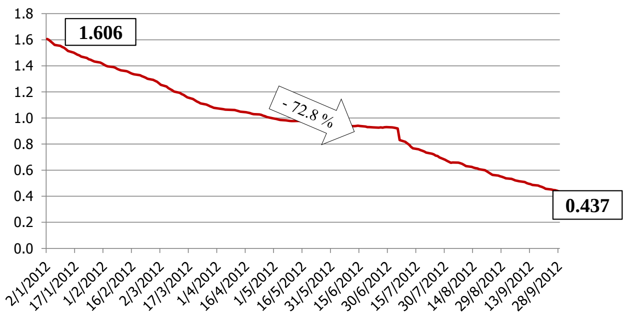
In order to control or mitigate the currency risk, the Group is regularly monitoring the macroeconomic changes and trends, as well as other factors affecting this type of risk. In case of significant increase in currency risk, Mercator Group is opting for natural hedging.

Interest rate risk

EURIBOR interest rate is subject to market fluctuations and is changing on a daily basis, which can lead to increased financing costs.

The variable interest rate 6-month EURIBOR was at 0.437% at the end of the first three quarters of 2012, which is considerably (1.169 percentage point) lower than at the beginning of the year (at the start of the year, the 6-month EURIBOR was at 1.606%). Average 6-month EURIBOR in the period 1-9 2012 was 0.982%; in the corresponding period last year, it amounted to 1.612%.

6m Euribor movement in the period 1-9 2012



Management of interest rate risk requires regular monitoring of the changes in variable interest rates which could negatively affect Mercator Group's finance expenses. In case of announcement of an increase of interest rates, Mercator Group examines the possibilities of signing additional derivative financial instruments in order to hedge the interest rate risk. In order to control the interest rate risk, at least 50% of all financial liabilities used to finance non-current assets and at least 25% of total financial liabilities are hedged at any moment.

Liquidity risk

Assessment of the risk that at a certain moment, the company will not have enough liquid assets to settle its current liabilities.

The ratio between non-current and current financial liabilities in the period 1-9 2012 was 62.4% : 37.6%. In the equivalent period of last year, the ratio between non-current and current financial liabilities was at 72.7% : 27.3%. Compared to the situation after the first half of the year when the ratio was at 66.6% : 33.4%, the ratio saw a slight negative development in the third quarter.

Liquidity risk is controlled in all markets of Mercator Group operations with the following measures:

- improved working capital management;
- monetization project aimed at reducing the debt;
- refinancing of existing financial liabilities;
- search for alternative financing sources related to current real property at Mercator (sale and leaseback, Schuldschein etc.);
- consistent compliance with the recommendations for reducing the credit risk in order to secure constant inflows of cash from wholesale customers and Mercator Pika card holders;
- favouring mutual and chain offsetting of payables and receivables as much as possible;
- establishing daily contact with major customers and proactive collection of overdue receivables;
- establishing liquidity management at the Mercator Group level consistently with the needs of particular companies, by regular monitoring of the required amount of cash for refinancing by particular banks, and detailed monitoring of Mercator Group's daily liquidity two months in advance;
- revision of the existing liquidity planning system at the level of particular companies and Mercator Group.

Operational risks

Operational risks affect the ability to conduct business processes and to attain the goals laid down, and the cost efficiency of Mercator Group operations

Category management operational risks

Increase of tradable commodity prices, seasonal effect.

Our category management involves close monitoring of the prices of raw materials, on which the prices of our products are heavily dependent. Since commodity market changes affect the prices of all products in a category, loss of sales and profit margin cannot be recovered by the use of substitutes. Despite the European Commission's estimate that the prices of agricultural products would remain unchanged in the medium run, we saw a price hike in the third quarter. Due to mounting prices of raw materials, we can expect higher prices of meat, meat produce, flour, mill products, bread, and edible oil.
We are actively monitoring the changes in energy prices and their impact on manufacturer prices. With respect to shopping for seasonal products, we have seen a change in shopping behaviour and consumer purchasing power. This can result in high inventories of goods or low profit margin due to unplanned discounts. We take special care to monitor the inventory of seasonal products and we adopt measures to clear such inventory as necessary.

Environmental risks

Electrical energy.

Measurements of refrigeration chest operation are in progress in order to develop a model for resetting the refrigeration equipment in a way that will reduce power consumption. Energy and economic analyses of replacement of the existing lighting fixtures with new lamps have been completed for two buildings.
The following fields were examined regarding planning and use of alternative sources of energy:

- overview of potential buildings that allow co-generation (combined heat and power), including a calculation of potential annual savings per unit;
- analysis of offers for implementation of combined heat and power generation.

Human resource risks

Absenteeism due to illness.

In the period 1–9 2012, the **Health Promotion Project** included the following activities:

- Working with the Kranj Institute of Public Health, we organized the **Healthy Diet** seminar intended for employees in HoReCa activities; the seminar was attended by 92 employees.
- We organized the campaign **Week of healthy nutrition** which included the release of a brochure with recommendations for a healthy diet, a poster presenting a balanced light meal/snack as an important part of healthy nutrition, guidelines for a healthy diet of Mercator employees, and the film titled "Healthy Nutrition".
- The campaign **5 Minutes to Feel Better at Work** involved preparing brief presentational videos and posters presenting recommended exercise.
- We also organized the campaign **Week in motion** which included shooting a brief presentational film *Exercise protects your health*, and publishing the *Guidelines for exercise* as developed by the Institute of Public Health, booklet *Exercise for health* that also includes a Nordic walking calendar, and an article on Nordic walking. We also offered a Nordic walking test.
- Medical campaign **Measurement of Ankle Brachial Index and plethysmography** was attended by 719 participants in May and June.
- A workgroup was established to redefine the purpose and goals of interviews with the employees with the highest rate of absenteeism.
- The Health Promotion Project was applied for the national contest **"Sound Practice in Occupational Health and Safety"**.

SUSTAINABILITY REPORT

Sustainable development policy

Mercator operations are sustainable and responsible, creating a healthy and safe future for the people and the environment.

RESPONSIBILITY TO CUSTOMERS

At Mercator, the customer comes first. We are investing our best efforts to offer our customers safe products. In the period 1-9 2012, we carried out 463 regular and 22 extraordinary controls, 958 sample analyses, and monitoring on open departments. These activities are a part of our care for the quality and safety of the food we offer our customers.

Caring for the environment, we are implementing new environmentally friendly formats, standards, and technologies (efficient refrigeration equipment, reduced power consumption, use of shopping carts made of recycled materials). Looking to provide offer that will satisfy the needs of our customers and even exceed them, we are doing our best to offer environmentally friendly products with the broadest and most recognized communication, at reasonable prices. The activity "From the Home Country. 100% Slovenian" includes offering Slovenian fruit and vegetables to our customers. To this end, we developed and equipped Mercator Marketplaces at over 100 Mercator units, highlighting the Slovenian produce.

RESPONSIBILITY TO EMPLOYEES

Number of employees

MARKET	Number of employees as at Sep. 30, 2012	Number of employees as at Dec. 31, 2011	Index Number of employees Sep. 30, 2012/ Dec. 31, 2011	Number of employees based on hours worked in the period 1-9 2012
Slovenia	11,919	12,034	99.0	11,223
Serbia	4,793	4,806	99.7	4,544
Croatia	3,712	3,873	95.8	3,522
Bosnia and Herzegovina	1,990	1,722	115.6	1,908
Montenegro	1,457	1,429	102.0	1,497
Bulgaria	214	268	79.9	199
Albania	123	134	91.8	110
TOTAL	**24,208**	**24,266**	**99.8**	**23,002**

As the largest employer in trade industry in the region, our corporate social responsibility to employees is manifest in employee training and education, internal communication, and employee motivation.

In the period 1-9 2012, we conducted the **Competency Rating** project for the leaders at Mercator Group. The project involved sending competency profiles to all leaders and their superiors;

competency profiles were the central topic of this year's annual interviews. We organized **Shop Manager Schools** at the company Poslovni sistem Mercator, d.d., and at trade companies of Southeastern Europe. We included a new priority into our human resource strategy, referred to as **generation management**, which consists of two parts: **management of employees aged 55+** and **management of employees aged 30 or less**. Approximately 1,500 key employees took part in the **6th Key Employee Conference**.

RESPONSIBILITY TO NATURAL ENVIRONMENT

Mercator Group operations are conducted while bearing in mind the generations to come. We are aware that we can make a major contribution to environment protection; therefore, we have made a committed effort in the past years to make our processes more environmentally friendly. We are pursuing the goal of reducing power and fuel consumption for heating by savings measures, current maintenance, and minor investments. Thus, we implemented combined heat and power generation at 9 units; we are currently negotiating the annex to install CHP equipment at further 37 units. We are regularly calculating the carbon footprint of the company, each store, and each Mercator private label product. We have developed the Environment Protection Portal which offers our employees access to various environment-related information. We are optimizing out transport routes and deliveries, increasing the use of environmentally friendly cargo vehicles, and conducting activities to relocate our logistics operations to energy-efficient facilities that are friendly to the environment and the people, located outside urban areas.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Mercator's vision is aimed at improving the quality of life and satisfaction. Our activities contribute to the development of the local (regional) economy and social development. Sponsorship, donations, and participation in humanitarian campaigns are an important part of the strategy of comprehensive socially responsible conduct of the Mercator Group. In the period 1-9 2012, we donated funds to various organizations (Slovenian Caritas, Slovenian Red Cross campaign "Taking them to the Seaside", safe house in Pilštanj, Slovenian maternity homes etc.) and families in social and economic hardship. We sponsored several sports and cultural events, and educational and health-care projects.

RESPONSIBILITY TO SUPPLIERS

Particular attention is paid to operations with proven suppliers, selection of assortment, pricing, promotions, and consumer training and education. We are including Slovenian suppliers, farmers, and small growers in our ongoing projects. In the third quarter, the project **"Local"** included 410 products from 80 local suppliers. The project **"From Slovenian Farms"** involves active cooperation with six farmers and numerous small growers of meat produce. Particular attention is paid to cooperation with the Farmers' Association, farmers' cooperatives, and producers of packaging made of environmentally friendly raw materials as we motivate them to pool their forces in supporting local growing. The **"Mercator Marketplace"** project is offering products of over 100 small growers and farmers' cooperatives, including 120 different types of Slovenian fruit and vegetables.

RESPONSIBILITY OF PROVIDING SECURITY

At Mercator Group, we are aware that security and safety of our customers, employees, and our property is an important aspect for successful operations. Implementation of security policy is provided by implementation of security and protection measures as defined in the relevant internal acts for particular fields of operation. All employees, starting with the top management, should be aware of the importance of the security of the entire Mercator Group, as one of the essential aspects of successful pursuit of our mission; our conduct should contribute to continuous improvement of security. Thus, we are conducting preventive and educational activities at individual organizational units in order to reduce the risk and improve safety. Provision of security is also important in investment activities; in this regard, security is provided by technical means, subject to relevant technical security standards.

RESPONSIBILITY TO QUALITY

Efficient management of business processes and quality of products and services is aimed at providing long-term satisfaction of our customers, employees, shareholders, business partners, and our social environment. Activities to provide comprehensive quality include application of international quality standards and principles of business excellence. Mercator Group currently holds 15 active certificates. We are committed to management of documents, records, non-compliance, and implementation of corrective and preventive measures. Thus, Mercator Standards collection currently includes 3,045 valid documents. Quality management system is systemically monitored with appropriate IT support.

FINANCIAL REPORT

All financial statements of the Mercator Group for the period 1-9 2012 have been prepared in compliance with International Financial Reporting Standards and are unaudited.

ACCOUNTING POLICIES

Pursuant to the provisions of Article 7 of the **Code of Practice for the stakeholders in the agrifood chain**, adopted in 2011, Mercator Group changed on January 1, 2012 the way it manages its relations with majority of suppliers of fast-moving consumer goods in Slovenia, by implementing pricing according to **net-net price system**. Before, Mercator mostly managed its supplier relations according to the principle of manufacturer or wholesale prices. Since this is a notable change that also affects the valuation of inventories and cost of goods sold, Mercator made some changes pursuant to the provisions of IAS 8 as of January 1, 2012 to the relevant accounting policies at the level of the entire Group. In addition, appropriate restatements of previous period accounting categories provided comparability of financial statements between periods. Changes to accounting policies do not have any material effects on the past fiscal year from the aspect of performance of Group assets.

In transition to the valuation of inventories according to the net-net pricing system, all rebates and other discounts that were previously reported for the entire period are now reported in current purchasing transactions, which results in a lower value of inventory. At the same time, the value of rebates and other discounts is reported as a decrease in the cost of goods sold rather than being reported in revenue. Furthermore, Mercator Group companies in Slovenia changed, due to gradual implementation of standardized IT systems in retail and warehouse units, which started during 2011 and which will presumably be completed by the end of 2012, the way of calculating and reporting the cost of goods sold from calculation method to the actual method. This has a one-off effect on the same accounting categories as the implementation of the net-net pricing system. Therefore, both changes were made at the same time; because of these changes, restatements were made in the previous financial statements pursuant to IAS 8.22. Detailed explanations regarding the restatements can be found in explanations to non-audited financial statements, pertaining to particular accounting categories.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Condensed consolidated financial statements for the period 1-9 2012 comprise the company Mercator, d.d., and its subsidiaries, as follows:

- **in Slovenia:** Intersport ISI, d.o.o., Modiana, d.o.o., M - Tehnika, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., M - nepremičnine, d.o.o., M - Energija, d.o.o., Argentum - A, d.o.o., Argentum - B, d.o.o., Argentum - C, d.o.o., Argentum - D, d.o.o., Argentum - E, d.o.o., Argentum - F, d.o.o., Argentum - G, d.o.o., Argentum - H, d.o.o., in Argentum - I, d.o.o.;

- **abroad:** Mercator - H, d.o.o., Croatia, Intersport - H, d.o.o., Croatia, Modiana, d.o.o., Croatia, Mercator centar tehnike, d.o.o., za trgovinu i usluge, Croatia, Mercator - S, d.o.o., Serbia, Intersport S - ISI, d.o.o., Serbia, Modiana, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Intersport - BH, d.o.o., Bosnia and Herzegovina, Modiana, d.o.o., Bosnia and Herzegovina, Mercator - CG, d.o.o., Montenegro, Mercator - K, l.l.c., Republic of Kosovo, Mercator Makedonija, d.o.o.e.l., Macedonia, Investment Internacional, d.o.o.e.l., Macedonia, Mercator - B, e.o.o.d., Bulgaria and Mercator - A, sh.p.k., Albania;

(hereinafter referred to as »Mercator Group«). Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

Condensed consolidated statement of financial position

EUR thousand	30/9/2012	31/12/2011 restated	1/1/2011 restated	Index 30/9/2012/ 31/12/2011
ASSETS				
Non-current assets				
Property, plant, and equipment	1,870,715	1,906,018	1,870,428	98.1
Investment property	3,338	3,450	3,894	96.8
Intangible assets	42,746	47,623	52,626	89.8
Deferred tax assets	8,706	9,837	8,700	88.5
Loans and deposits	64,049	65,823	77,113	97.3
Available-for-sale financial assets	1,285	2,628	3,959	48.9
	1,990,839	**2,035,379**	**2,016,720**	**97.8**
Current assets				
Inventories	267,925	310,030	297,332	86.4
Trade and other receivables	273,530	243,402	231,871	112.4
Current tax assets	5,668	3,934	-	144.1
Loans and deposits	1,163	2,001	17,346	58.1
Derivative financial instruments	8	158	70	5.1
Cash and cash equivalents	30,668	27,540	20,766	111.4
	578,962	**587,065**	**567,385**	**98.6**
Total assets	**2,569,801**	**2,622,444**	**2,584,105**	**98.0**
EQUITY				
Share capital	157,129	157,129	157,129	100.0
Share premium	198,872	198,872	198,872	100.0
Treasury shares	(3,235)	(3,235)	(3,235)	100.0
Revenue reserves	263,662	263,662	248,598	100.0
Fair value reserve	193,357	192,209	200,187	100.6
Retained earnings	(1,405)	10,294	6,671	-
Profit for the period	(21,982)	7,983	30,396	-
Currency translation reserve	(84,084)	(60,275)	(62,295)	139.5
Total equity attributable to owners of the parent company	**702,314**	**766,639**	**776,323**	**91.6**
Non-controlling interest	**204**	**221**	**242**	**92.3**
Total equity	**702,518**	**766,860**	**776,565**	**91.6**
LIABILITIES				
Non-current liabilities				
Trade and other payables	3,571	2,369	2,447	150.7
Financial liabilities	705,583	822,145	674,375	85.8
Deferred tax liabilities	45,715	49,830	51,269	91.7
Provisions	29,100	32,711	35,709	89.0
	783,969	**907,055**	**763,800**	**86.4**
Current liabilities				
Trade and other payables	652,950	580,872	639,517	112.4
Current tax liabilities	379	507	5,892	74.8
Financial liabilities	425,010	362,588	395,853	117.2
Derivative financial instruments	4,975	4,562	2,478	109.1
	1,083,314	**948,529**	**1,043,740**	**114.2**
Total liabilities	**1,867,283**	**1,855,584**	**1,807,540**	**100.6**
Total equity and liabilities	**2,569,801**	**2,622,444**	**2,584,105**	**98.0**

Condensed consolidated income statement

EUR thousand	1-9 2012	1-9 2011 restated	Index 1-9 2012/ 1-9 2011
Revenue	2,141,284	2,126,515	100.7
Cost of sales	(2,043,062)	(1,991,174)	102.6
Gross profit	**98,222**	**135,341**	**72.6**
Administrative expenses	(78,529)	(77,630)	101.2
Other income	14,097	14,431	97.7
Results from operating activities	**33,790**	**72,142**	**46.8**
Finance income	3,160	5,777	54.7
Finance expenses	(55,012)	(41,734)	131.8
Net finance expenses	**(51,852)**	**(35,957)**	**144.2**
Profit before income tax	**(18,062)**	**36,185**	**-**
Tax	(3,940)	(9,136)	43.1
Profit for the period	**(22,002)**	**27,049**	**-**
Profit for the period, attributable to:			
Owners of the parent company	(21,982)	27,062	-
Non-controlling interest	(20)	(13)	153.8

Condensed consolidated statement of comprehensive income

EUR thousand	1-9 2012	1-9 2011	Index 1-9 2012/ 1-9 2011
Profit for the period	**(22,002)**	**27,049**	**-**
Other comprehensive income			
Foreign currency translation differences – foreign operations	(23,806)	2,714	-
Changes in fair value of available-for-sale financial assets	699	-	-
Changes in fair value of cash flow hedges	(564)	(2,376)	23.7
Deferred tax	3,670	636	577.0
Other comprehensive income for the period	**(20,001)**	**974**	-
Total comprehensive income for the period	**(42,003)**	**28,023**	-
			-
Total comprehensive income for the period, attributable to:			-
Owners of the parent company	(41,986)	28,040	-
Non-controlling interest	(17)	(17)	100.0

Condensed consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interest	Total equity
Balance at January 1, 2011	**157,129**	**198,872**	**(3,235)**	**270,194**	**200,187**	**6,671**	**30,396**	**(62,295)**	**797,919**	**246**	**798,165**
Effects due to changes in accounting policy	-	-	-	(21,596)	-	-	-	-	(21,596)	(4)	(21,600)
Balance at January 1, 2011 (restated)	**157,129**	**198,872**	**(3,235)**	**248,598**	**200,187**	**6,671**	**30,396**	**(62,295)**	**776,323**	**242**	**776,565**
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	27,062	-	27,062	(13)	27,049
Other comprehensive income	-	-	-	-	(4,024)	2,284	-	2,718	978	(4)	974
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(4,024)**	**2,284**	**27,062**	**2,718**	**28,040**	**(17)**	**28,023**
Transactions with owners of the parent company directly recognised in equity											
Dividends to equity holders	-	-	-	-	-	(29,785)	-	-	(29,785)	-	(29,785)
Transfer of profit for the period to retained earnings	-	-	-	-	-	30,396	(30,396)	-	-	-	-
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**611**	**(30,396)**	**-**	**(29,785)**	**-**	**(29,785)**
Changes in ownership interest in subsidiaries											
Proceeds from sale of subsidiary	-	-	-	-	(1,969)	-	-	-	(1,969)	-	(1,969)
Total transactions with owners	**-**	**-**	**-**	**-**	**(1,969)**	**611**	**(30,396)**	**-**	**(31,754)**	**-**	**(31,754)**
Balance at September 30, 2011 (restated)	**157,129**	**198,872**	**(3,235)**	**248,598**	**194,194**	**9,566**	**27,062**	**(59,577)**	**772,609**	**225**	**772,834**

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interest	Total equity
Balance at January 1, 2012 (restated)	**157,129**	**198,872**	**(3,235)**	**263,662**	**192,209**	**10,294**	**7,983**	**(60,275)**	**766,639**	**221**	**766,860**
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	(21,982)	-	(21,982)	(20)	(22,002)
Other comprehensive income	-	-	-	-	1,148	2,657	-	(23,809)	(20,004)	3	(20,001)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,148**	**2,657**	**(21,982)**	**(23,809)**	**(41,986)**	**(17)**	**(42,003)**
Transactions with owners of the parent company directly recognised in equity											
Dividends to equity holders	-	-	-	-	-	(22,339)	-	-	(22,339)	-	(22,339)
Transfer of profit for the period to retained earnings	-	-	-	-	-	7,983	(7,983)	-	-	-	-
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(14,356)**	**(7,983)**	**-**	**(22,339)**	**-**	**(22,339)**
Balance at September 30, 2012	**157,129**	**198,872**	**(3,235)**	**263,662**	**193,357**	**(1,405)**	**(21,982)**	**(84,084)**	**702,314**	**204**	**702,518**

Condensed consolidated statement of cash flows

EUR thousand	1-9 2012	1-9 2011	Index 1-9 2012/ 1-9 2011
Cash flows from operating activities			
Gross cash flow from operating activities	**87,301**	**130,602**	**66.8**
Change in inventories	42,345	1,945	2,177.1
Change in trade and other receivables	(31,680)	(43,092)	73.5
Change in trade and other payables	73,097	(72,028)	-
	171,063	**17,427**	**981.6**
Interest paid	(38,950)	(39,347)	99.0
Income tax paid	(2,953)	(8,656)	34.1
Net cash from (used in) operating activities	**129,160**	**(30,576)**	**-**
Cash flows from investing activities			
Acquisition of subsidiary and business operations, net of cash acquired	(442)	(2,201)	20.1
Acquisition of property, plant, and equipment and investment property	(52,494)	(82,338)	63.8
Acquisition of intangible assets	(3,482)	(3,126)	111.4
Acqusition of available-for-sale financial assets	(5)	-	-
Proceeds from sale of property, plant, and equipment and investment property	2,580	6,773	38.1
Proceeds from sale of intangible assets	9	1	865.9
Proceeds from sale of available-for-sale financial assets	1,699	-	-
Disposal of subsidiaries, net of cash disposed of	-	9,985	-
Interest received	2,307	2,957	78.0
Dividends received	113	54	209.5
Loans and deposits repayments received	2,617	27,166	9.6
Net cash used in investing activities	**(47,098)**	**(40,729)**	**115.6**
Cash flows from financing activities			
Proceeds from (repayments of) borrowings	(55,125)	95,261	-
Dividends paid	(22,174)	(30,022)	-
Net cash from (used in) financing activities	**(77,299)**	**65,239**	**-**
Net (decrease) increase in cash and cash equivalents	**4,763**	**(6,066)**	**-**
Cash and cash equivalents as at the beginning of the period	27,540	20,766	132.6
Effect of exchange rate fluctuations on cash and cash equivalents	(1,635)	583	-
Cash and cash equivalents as at the end of the period	**30,668**	**15,283**	**200.7**

Notes to condensed consolidated income statement

Revenue
In the period 1-9 2012, Mercator Group generated EUR 2,141,284 thousand of revenue, which is 0.7 percent more relative to the period 1-9 2011. Revenue dropped in Slovenia (index 98.0); in international markets, revenue growth amounted to 4.4%. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in home product program and textile/apparel program. Investment into retail network was low in Slovenia in this year due to harsh economic conditions; moreover, the divestment of the company Eta, d.d., in June 2011 also contributed to the decrease in revenue. In international markets, change in revenue relative to the first half of last year differs by countries. Taken as a whole, the growth is mostly the result of the takeover of trade operations of the company Drvopromet in Bosnia and Herzegovina in October 2011.

In compliance with the changes in accounting policies, revenue for the period 1-9 2011 was, pursuant to IAS 8, reclassified in the amount of EUR 49,208 thousand, reducing the costs of sales in the first half of 2011 by that amount.

Costs of sales
Mercator Group costs of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 2,043,062 thousand in the period 1-9 2012, which is a 2.6-percent increase on the same period of last year.
Cost of goods sold rose by 2.0 percent compared to the same period of last year. In the period 1-9 2012, early payment discounts were also lower by approximately EUR 1.8 million as the Group made less early payments because of worsened situation in the financial markets. Other expenses in the first three quarters of 2012 were higher than in the corresponding period last year by EUR 1,280 thousand.

Costs of sales in the period 1-9 2011 were reduced by EUR 49,208 thousand pursuant to IAS 8, in order to comply with the new accounting policies; revenue was adjusted downwards by the same amount.

Gross profit
Gross profit for the period 1-9 2012 amounted to EUR 98,222 thousand, which is a 27.4-percent decrease compared to the period 1-9 2011. The share of gross profit in revenue is 4.6% which is 1.8 percentage points less than in the equivalent period last year.

Administrative expenses
Mercator Group's administrative expenses in the period 1-9 2012 amounted to EUR 78,529 thousand, which is 1.2 percent more than in the equivalent period last year.

The Management Board performs an extensive rationalization of all types of costs, the first effect of EUR 5 million are already palpable in the third quarter of 2012. Cost rationalization continues and remains one of the priorities for improving business results of the Mercator Group.

Total expenses, consisting of selling and marketing costs (included in costs of sales), production costs, and administrative expenses amounted to EUR 526,195 thousand in the first three quarters of 2012, an increase of 3.7 percent on the last year's figure for such period. The highest increase was seen in rent payments as Mercator is increasingly using operating lease to expand its retail network. Among other expenses, the costs of services had the steepest growth of 10.6%; in particular, operating costs rose the most within this category of costs, because the prices and consumption of energy rose along with maintenance costs resulting from refurbishment projects at retail units, which were a part of the project of refreshment of FMCG offer.

Results from operating activities
In the period 1-9 2012, Mercator Group's results from operating activities reached EUR 33,790 thousand, which is 46.8% of the figure for the first three quarters of 2011. Results from operating activities are lower especially because of negative effects of the economic situation on consumption, especially in the non-market program, where the impact of the economic downturn is greater. Partially, results are also weakened by higher rent payments, which are the result of expansion of the retail network through operating lease.

Finance income and expenses
Finance income amounted to EUR 3,160 thousand, derived mostly from revenue from interest in the amount of EUR 2,308 thousand, gains from disposal of available-for-sale financial assets in the amount of EUR 280 thousand, dividend income in the amount of EUR 113 thousand, and other finance income in the amount of EUR 459 thousand.

Finance expenses amount to EUR 55,012 thousand in the period at hand, pertaining mostly to interest expenses of EUR 38,951 thousand and negative currency translation differences in the amount of EUR 10,548 thousand, resulting from translation of euro denominated loans to the local currency as at the cut-off day for the statement of financial position.

Net finance expenses are higher than in the first three quarters of last year by EUR 15,895 thousand, which is mostly due to negative currency translation differences resulting from the depreciation of the Serbian dinar (difference of EUR 11,662 thousand between the two periods), lower finance income from long-term financial investments which included gains from divestment of the company Eta, d.d., last year, and higher revaluation adjustments of receivables.

Profit before income tax
In the period 1-9 2012, Mercator Group's profit before income tax was negative at EUR -18,062 thousand.

Profit for the financial period
Mercator Group's net loss for the period 1-9 2012 amounts to EUR -22,002 thousand.

EBITDA
Mercator Group EBITDA in the period 1-9 2012 amounts to EUR 95,089 thousand which is lower by 28.5 percent than in the equivalent period of last year, for the same reasons that are listed with regard to lower results from operating activities.

EBITDAR
The relevant indicator of the ability to generate operating cash flow, which also accounts for the expansion of Mercator Group's retail network through operating lease, is the EBITDAR which amounted to EUR 137,301 thousand in the period 1-9 2012, which is 17.0% less than the EBITDA; the difference is the increase of operating lease.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at September 30, 2012 amounted to EUR 2,569,801 thousand, which is EUR 52,643 thousand less than at the end of 2011, mostly due to lower property, plant, and equipment, and lower inventories.

As at September 30, 2012, the value of Mercator Group non-current assets amounted to EUR 1,990,839 thousand, which is EUR 44,540 thousand less than as at December 31, 2011. The largest share of non-current assets (96.3% or EUR 1,916,799 thousand) is represented by property, plant, and equipment, the value of which was EUR 40,292 thousand lower than as at the end of 2011 as a result of lower investment which was lower than depreciation and negative currency translation differences.

As at September 30, 2012, the value of Mercator Group current assets amounted to EUR 578,962 thousand, which is EUR 8,103 thousand less than at the end of 2011. Trade and other receivables represent the largest portion of total current assets (47.2%), followed by inventories (46.3%). In 2012, the Group has been intensively implementing the measures for efficient working capital management. As a result, inventories dropped by EUR 42,105 thousand.

Pursuant to the changes in accounting policies, the Group reduced the value of inventories as at January 1, 2011, by EUR 24,749 thousand. The change pertains to the value of rebates in the inventory (EUR 18,698 thousand) and the estimated difference resulting from the change in the method of recognizing the cost of goods sold (EUR 6,051 thousand). The value of rebates in the inventory rose by EUR 470 thousand by the end of 2011; therefore, total adjustment of the value of inventories as at December 31, 2011 is EUR -25,219 thousand.

Equity and liabilities

As at September 30, 2012, Mercator Group equity amounted to EUR 702,518 thousand, which is EUR 64,342 thousand, or 8.4%, less than as at the end of 2011. The decrease pertains to the negative net income (loss of EUR 22,002 thousand), negative currency translation differences in translation of financial statements of international subsidiaries (EUR -23,806 thousand), and dividend payment in the amount of EUR 22,339 thousand, while the rest included increase of equity in the amount of EUR 3,805 thousand, mostly due to deferred tax as a result of decrease of tax rate in Slovenia.

As at September 30, 2012, total financial liabilities amounted to EUR 1,130,593 thousand, which is EUR 54,140 thousand less than as at the end of 2011. The decrease is the result of the Group's efforts to reduce its debt. Net financial debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 1,038,394 thousand as at September 30, 2012 (December 31, 2011: EUR 1,091,145 thousand).

As at September 30, 2012, provisions amounted to EUR 29,100 thousand. Compared to the end of 2011, provisions have decreased by EUR 3,611 thousand, mostly due to partial reversal of provisions for legal claims.

Trade and other payables as at September 30, 2012 amounted to EUR 656,521 thousand, which is EUR 73,280 thousand more than at the end of 2011. The increase in trade payables is a result of year-on-year dynamics in the retail industry; in addition, it is related to the reduction of debt.

As at September 30, 2012, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 74.7%, which is 7.6 percentage points less than as at the end of 2011.

The change in the accounting policies regarding inventories also affects the corporate income tax; hence, trade and other payables are lower by EUR 3,149 thousand as at January 1, 2011.

As a counter-entry to the adjustment of the value of inventory and tax liabilities as at January 1, 2011, and as at the last day of 2011, the value of equity was also adjusted pursuant to the changed accounting policies and the IAS 8. As at January 1, 2011, the Group revenue reserves were decreased by EUR 21,596 thousand, and non-controlling interests were decreased by EUR 4 thousand. Increase in the value of rebates in inventories had an effect of EUR -470 thousand on the profit (net income) for the year 2011. Since this effect on the profit (net income) for the entire year 2011 is immaterial, it is recognized in revenue reserves. Thus, total amount of revaluation adjustment to equity in 2011 amounts to EUR -22,109 thousand.

FINANCIAL REPORT OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Poslovni sistem Mercator, d.d., (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Mercator, d.d., is the parent/controlling company of a group of related companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, Albania, Republic of Kosovo, and Macedonia.

The company has a double role: it is predominantly engaged in fast-moving consumer goods retail and wholesale; however, it also performs various group-related corporate tasks for the companies included in the Mercator Group. Hence, employing the financial statements of the company Poslovni sistem Mercator, d.d., for economic analysis of Mercator Group's operation is inappropriate. For such analysis, it is appropriate to apply above all the consolidated financial statements that present an account of the performance of the Mercator Group as a uniform business entity.

Due to the transfer of a part of operating activities to the company M - Tehnika, d.d., financial statements of the company Poslovni sistem Mercator, d.d., are not fully comparable between particular periods in terms of substance.

Condensed statement of financial position

EUR thousand	30/9/2012	31/12/2011 restated	1/1/2011 restated	Index 30/9/2012/ 31/12/2011
ASSETS				
Non-current assets				
Property, plant, and equipment	1,004,509	1,003,846	1,014,704	100.1
Investment property	3,471	3,450	3,894	100.6
Intangible assets	10,368	10,513	9,652	98.6
Deferred tax assets	7,606	8,657	8,216	87.9
Loans and deposits	85	870	286	9.8
Investment into equity of subsidiaries	632,053	636,319	618,813	99.3
Available-for-sale financial assets	1,078	2,399	3,547	44.9
	1,659,170	**1,666,054**	**1,659,112**	**99.6**
Current assets				
Inventories	81,712	136,003	136,429	60.1
Trade and other receivables	159,086	163,118	158,907	97.5
Current tax assets	4,662	2,167	5	215.1
Loans and deposits	57,910	34,575	48,848	167.5
Derivative financial instruments	8	158	70	5.1
Cash and cash equivalents	9,773	10,068	3,829	97.1
	313,151	**346,089**	**348,088**	**90.5**
Total assets	**1,972,321**	**2,012,143**	**2,007,200**	**98.0**
EQUITY				
Share capital	157,129	157,129	157,129	100.0
Share premium	198,872	198,872	198,872	100.0
Treasury shares	(3,235)	(3,235)	(3,235)	100.0
Revenue reserves	239,422	239,422	223,667	100.0
Fair value reserve	195,240	190,651	194,435	102.4
Retained earnings	8,749	13,246	3,612	66.1
Profit for the period	19,364	15,574	36,806	124.3
	815,541	**811,659**	**811,286**	**100.5**
LIABILITIES				
Non-current liabilities				
Trade and other payables	2,024	2,022	2,447	100.1
Financial liabilities	531,781	628,686	456,547	84.6
Deferred tax liabilities	35,716	39,805	40,814	89.7
Provisions	23,740	26,926	29,459	88.2
	593,261	**697,439**	**529,267**	85.1
Current liabilities				
Trade and other payables	303,342	303,575	338,090	99.9
Current tax liabilities	2,841	-	5,759	-
Financial liabilities	252,361	194,908	320,320	129.5
Derivative financial instruments	4,975	4,562	2,478	109.1
	563,519	**503,045**	**666,647**	**112.0**
Total liabilities	**1,156,780**	**1,200,484**	**1,195,914**	**96.4**
Total equity and liabilities	**1,972,321**	**2,012,143**	**2,007,200**	**98.0**

Condensed income statement

EUR thousand	1-9 2012	1-9 2011 restated	Index 1-9 2012/ 1-9 2011
Revenue	1,077,762	1,182,990	91.1
Cost of sales	(999,103)	(1,080,805)	92.4
Gross profit	**78,659**	**102,185**	**77.0**
Administrative expenses	(38,509)	(41,408)	93.0
Other income	8,871	9,346	94.9
Results from operating activities	**49,021**	**70,123**	**69.9**
Finance income	6,228	8,461	73.6
Finance expenses	(32,390)	(36,660)	88.4
Net finance expenses	**(26,162)**	**(28,199)**	**92.8**
Profit before income tax	**22,859**	**41,924**	**54.5**
Tax	(3,495)	(7,645)	45.7
Profit for the period	**19,364**	**34,279**	**56.5**

Condensed statement of comprehensive income

EUR thousand	1-9 2012	1-9 2011	Index 1-9 2012/ 1-9 2011
Profit for the period	**19,364**	**34,279**	**56.5**
Other comprehensive income			
Changes in fair value of available-for-sale financial assets	699	-	-
Changes in fair value of cash flow hedges	(564)	(2,376)	23.7
Deferred tax	3,609	773	466.9
Disposal of an investment in a subsidiary	3,115	(2,981)	-
Other comprehensive income for the period	**6,859**	**(4,584)**	**-**
Total comprehensive income for the period	**26,223**	**29,695**	**88.3**

Condensed statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total equity
Balance at January 1, 2011	157,129	198,872	(3,235)	238,015	194,435	3,612	36,806	825,634
Effect due to change in accounting policies				(14,348)				(14,348)
Balance at January 1, 2011 (restated)	**157,129**	**198,872**	**(3,235)**	**223,667**	**194,435**	**3,612**	**36,806**	**811,286**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	34,279	34,279
Other comprehensive income	-	-	-	-	(6,571)	1,987	-	(4,584)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(6,571)**	**1,987**	**34,279**	**29,695**
Dividends to equity holders	-	-	-	-	-	(29,785)	-	(29,785)
Transfer of profit for the period to retained earnings	-	-	-	-	-	36,806	(36,806)	-
Balance at September 30, 2011 (restated)	**157,129**	**198,872**	**(3,235)**	**223,667**	**187,864**	**12,620**	**34,279**	**811,196**

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the period	Total equity
Balance at January 1, 2012 (restated)	**157,129**	**198,872**	**(3,235)**	**239,422**	**190,651**	**13,246**	**15,574**	**811,659**
Total comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	19,364	19,364
Other comprehensive income	-	-	-	-	4,589	2,268	-	6,857
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**4,589**	**2,268**	**19,364**	**26,221**
Transactions with owners directly recognised in equity								
Dividends to equity holders	-	-	-	-	-	(22,339)	-	(22,339)
Transfer of profit for the period to retained earnings	-	-	-	-	-	15,574	(15,574)	-
Balance at September 30, 2012	**157,129**	**198,872**	**(3,235)**	**239,422**	**195,240**	**8,749**	**19,364**	**815,541**

Condensed statement of cash flows

EUR thousand	1-9 2012	1-9 2011	Index 1-9 2012/ 1-9 2011
Cash flows from operating activities			
Gross cash flow from operating activities	**72,931**	**97,584**	**74.7**
Change in inventories	54,291	6,963	779.7
Change in trade and other receivables	4,030	(39,186)	-
Change in trade and other payables	(3,100)	(30,959)	10.0
Interest paid	(27,514)	(35,801)	76.9
Income tax paid	(2,841)	(7,341)	38.7
Net cash from operating activities	**97,797**	**(8,740)**	**-**
Cash flows from investing activities			
Acquisition of subsidiaries (capital increase)	(14,481)	(8,889)	162.9
Acquisition of property, plant, and equipment and investment property	(28,023)	(18,736)	149.6
Acquisition of intangible assets	(2,671)	(2,408)	110.9
Acqusition of available-for-sale financial assets	(5)		-
Loans and deposits made	(22,549)	7,199	-
Proceeds from sale of subsidiary	19,117	10,000	191.2
Proceeds from sale of property, plant, and equipment and investment property	5,721	4,552	125.7
Proceeds from sale of intangible assets	16	-	-
Proceeds from sale of available-for-sale financial assets	1,608	-	-
Interest received	3,429	4,035	85.0
Dividends received	1,371	54	2.538.9
Net cash used in investing activities	**(36,467)**	**(4,193)**	**869.7**
Cash flows from financing activities			
Proceeds from (repayments of) borrowings	(39,451)	43,337	-
Dividends paid	(22,174)	(30,022)	73.9
Net cash from financing activities	**(61,625)**	**13,315**	**(462.8)**
Net (decrease) / increase in cash and cash equivalents	**(295)**	**383**	**-**
Cash and cash equivalents as at the beginning of the period	10,068	3,829	262.9
Cash and cash equivalents as at the end of the period	**9,773**	**4,211**	**232.1**

Notes to condensed income statement

Revenue
In the period 1-9 2012, revenue of the company Poslovni sistem Mercator, d.d., amounted to EUR 1,077,762 thousand. Majority of company revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods. Compared to the equivalent period last year, revenue is lower by EUR 105,228 thousand or 8.9%, which is mostly the result of the transfer of a part of operations to the company M - Tehnika, d.d.

In compliance with the changes in accounting policies, revenue for the period 1-9 2011 was, pursuant to IAS 8, reclassified in the amount of EUR -27,415 thousand to reduce the costs of sales in the first three quarters of 2011.

Costs of sales
Costs of sales at the company, which include the purchase value of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 999,103 thousand in the period 1-9 2012. Compared to the equivalent period of last year, costs of sales are lower by EUR 81,702 thousand or by 7.6%. Lower selling and marketing costs are a result of the transfer of a part of operating activities to the company M - Tehnika, d.d.

Costs of sales in the period 1-9 2011 were reduced by EUR 27,415 thousand pursuant to IAS 8, in order to comply with the new accounting policies; revenue was adjusted downwards by the same amount.

Gross profit
Gross profit for the period 1-9 2012 amounts to EUR 78,659 thousand. The ratio of gross profit to revenue is 7.3%. In the period 1-9 2011, the share of gross profit in revenue was 8.6%.

Administrative expenses
Company administrative expenses in the period 1-9 2012 amounted to EUR 38,509 thousand, which is 7.0% below the figure from the first three quarters of last year.

Results from operating activities
In the period 1-9 2012, company results from operating activities amounted to EUR 49,021 thousand. Compared to the equivalent period of last year, results from operating activities are lower by EUR 21,102 thousand or by 30.1%.

Finance income and expenses
Finance income amounts to EUR 6,228 thousand. It mostly pertains to income from default and regular interest on financing and income from shareholdings. In the period 1-9 2011, finance income amounted to EUR 8,461 thousand. Higher finance income in 2011 is mostly the effect of gains from divestment of a subsidiary, amounting to EUR 3,938 thousand.

Finance expenses for the relevant period amounted to EUR 32,390 thousand, of which a major share relates to expenses from interest paid to commercial banks and revaluation adjustments to receivables. In the period 1-9 2011, finance expenses amounted to EUR 36,660 thousand.

Profit before income tax and net income

In the period 1-9 2012, the company profit before income tax amounted to EUR 22,859 thousand; profit for the period amounted to EUR 19,364 thousand, which is lower by 43.5% compared to the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Company assets as at September 30, 2012 amounted to EUR 1,972,321 thousand, which is EUR 39,822 thousand less than at the end of 2011.

As at September 30, 2012, the value of company non-current assets amounted to EUR 1,659,170 thousand, which is EUR 6,884 thousand less than as at December 31, 2011. The largest share of non-current assets is represented by property, plant, and equipment, accounting for 61.4% (EUR 1,018,348 thousand) of the total figure. Their value rose by EUR 539 thousand relative to the end of 2011. The change in value in the period 1-9 2012 is related to investments, depreciation and amortization, and disposal of non-core and non-viable property, plant, and equipment.

As at September 30, 2012, the value of company current assets amounted to EUR 313,151 thousand, which is EUR 32,938 thousand less than a the end of 2011. The largest effect on the decrease of current assets was the decrease of inventory by EUR 54,291 thousand. Decrease in the value of inventory is a result of the transfer of a part of the operations to the company M - Tehnika, d.d., and the decrease in inventory as a result of improved working capital management. The largest increase in current assets was seen in loans and deposits, by EUR 23,335 thousand or 67.5%. The increase is a result of higher loans grated to subsidiaries as a result of centralized financial assets management.

Pursuant to the changes in accounting policies, the company Mercator, d.d., reduced the value of inventories as at January 1, 2011, by EUR 17,497 thousand. The change pertains to the value of rebates in the inventory (EUR 11,446 thousand) and the estimated difference resulting from the change in the method of recognizing the cost of goods sold (EUR 6,051 thousand). The value of rebates in the inventory dropped by EUR 220 thousand by the end of 2011; therefore, total adjustment of the value of inventories as at December 31, 2011 is EUR -17,277 thousand.

Equity and liabilities

Company equity amounts to EUR 815,541 thousand as at September 30, 2012.

As at September 30, 2012, total financial liabilities amount to EUR 784,142 thousand, which is EUR 39,452 thousand less than as at the end of 2011. The drop in financial liabilities is a result of more efficient management of financial assets and liabilities, as the company's response to ever more restricted access to new sources of financing.

As at September 30, 2012, provisions amounted to EUR 23,740 thousand. Compared to the end of 2011, provisions have decreased by EUR 3,186 thousand, due to partial reversal of provisions for legal claims.

Trade and other payables as at September 30, 2012 amounted to EUR 305,366 thousand, which is EUR 231 thousand less than at the end of 2011.

The change in the accounting policies regarding inventories also affects the corporate income tax. Hence, trade and other payables are lower by EUR 3,149 thousand as at January 1, 2011.

As a counter-entry to the adjustment of the value of inventory and trade and other payables as at January 1, 2011, and as at the last day of 2011, the value of equity was also adjusted pursuant to the changed accounting policies and the IAS 8. As at January 1, 2011, the revenue reserves of the company Mercator, d.d., were decreased by EUR 14,348 thousand. Decrease in the value of rebates in inventories had an effect of EUR 220 thousand on the profit (net income) for the year 2011. Since this effect on the profit (net income) for the entire year 2011 is immaterial, it is recognized in revenue reserves. Thus, total amount of revaluation adjustment to equity in 2011 amounts to EUR -14,167 thousand.

Related party transactions

There are two groups of related parties at the company Poslovni sistem Mercator, d.d.: managerial personnel and subsidiaries. Managerial personnel includes members of management boards, supervisory boards, and employees with individual employment contracts working at Mercator Group companies.

Transactions between the company Poslovni sistem Mercator, d.d., and its subsidiaries within the Mercator Group, taking place as a part of various forms of business and financial activity, are always effected according to the arm's length principle. Managerial personnel receives compensation and reward in compliance with their respective employment contracts or consistently with the Shareholder Assembly resolutions (Supervisory Board members).

MANAGEMENT BOARD STATEMENT PURSUANT TO ARTICLE 113 OF THE MARKET IN FINANCIAL INSTRUMENTS ACT

The Management Board hereby confirms that to their best knowledge, the summary of the financial report of the company Poslovni sistem Mercator, d.d., and the Mercator Group is compiled in compliance with the appropriate framework of financial reporting and that it presents a true and fair account of assets and liabilities, financial position, and the income of the company Poslovni sistem Mercator, d.d., and other companies included in the consolidated statements. The business report includes a fair account of information on relevant transactions with related parties, and it is compiled in compliance with the relevant accounting standards.

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, November 13, 2012